

## **GOVERNANCE COMMITTEE**

WEDNESDAY, 24TH JULY 2019, 2.30 PM  
COMMITTEE ROOM 1, TOWN HALL, CHORLEY

I am now able to enclose, for consideration at the above meeting of the Governance Committee, the following reports that were unavailable when the agenda was published.

<b>Agenda No</b>	<b>Item</b>	
3	<b>TREASURY MANAGEMENT ANNUAL REPORT 2018/19 AND MONITORING 2019/20</b>	(Pages 19 - 56)
	To receive and consider the report of the Chief Finance Officer.	
4	<b>STATEMENT OF ACCOUNTS 2018/19</b>	(Pages 57 - 198)
	To receive and consider the report of the Chief Finance Officer.	
5	<b>AUDIT FINDINGS REPORT</b>	(Pages 199 - 226)
	To receive and consider the report of Grant Thornton, External Auditor.	

GARY HALL  
CHIEF EXECUTIVE

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Report of	Meeting	Date
Chief Finance Officer	Governance Committee	24 July 2019

## TREASURY MANAGEMENT ANNUAL REPORT 2018/19 AND JUNE QUARTER MONITORING 2019/20

### PURPOSE OF REPORT

- To report on Treasury Management performance and compliance with Prudential Indicators for the financial year ended 31 March 2019.
- To present monitoring figures for the quarter ended 30 June 2019, including updated interest rate forecasts from Link Asset Services.

### RECOMMENDATION(S)

- That the report be noted.

### EXECUTIVE SUMMARY OF REPORT

- This report advises on compliance with Prudential and Treasury Indicators in 2018/19. The return on investments for the year was 0.61%, which exceeded the benchmark of 0.57%. Details of borrowing and investments as at 31 March 2019 are presented.
- Borrowings and investments as at 30 June 2019 are also presented, and Link Asset Services have provided updated interest rate forecasts for 2019/20 and subsequent financial years.

Confidential report Please bold as appropriate	Yes	No

### CORPORATE PRIORITIES

- This report relates to the following Strategic Objectives:

Involving residents in improving their local area and equality of access for all		A strong local economy	
Clean, safe and healthy communities		An ambitious council that does more to meet the needs of residents and the local area	√

### BACKGROUND

- The Treasury Strategy for 2018/19 to 2020/21 was approved by Council on 27 February 2018. The strategy included prudential and treasury indicators, the treasury management strategy, annual investment strategy (including the list of approved investment counterparties), and the annual Minimum Revenue Provision (MRP) Policy.

8. A mid-year review of Treasury Management activity was presented to Governance Committee on 21 November 2018. This recommended the addition of LVNAV Money Market Funds (MMFs) to the list of approved investment counterparties. The original list included only Constant Net Asset Value (CNAV) MMFs, which were all converting to LVNAV status as a requirement of EU MMF reforms.
9. On 26 February 2019 Council approved the Treasury Strategy for 2019/20 to 2021/22, which included revised prudential and treasury indicators for 2018/19. Where relevant, comparisons with 2018/19 indicators in this outturn report are to those approved most recently.
10. A glossary of technical terms used in this report is presented as Appendix J.

## THE COUNCIL'S CAPITAL EXPENDITURE AND FINANCING

### 11. Capital Expenditure and Financing 2018/19

The Council undertakes capital expenditure on long-term activities. These activities may either be:

- Financed immediately through the application of capital or revenue resources (capital receipts, capital grants, revenue contributions etc.), which has no resultant impact on the Council's borrowing need; or
- If insufficient financing is available, or a decision is taken not to apply resources, the capital expenditure will give rise to a borrowing need.

The actual capital expenditure forms one of the required prudential indicators. The table below shows the actual capital expenditure for 2018/19.

<b>Table 1 - Capital Expenditure</b>	<b>2018/19 Estimate £000</b>	<b>2018/19 Revised £000</b>	<b>2018/19 Actual £000</b>	<b>2018/19 Variance £000</b>
Corporate	122	0	0	0
Customer & Digital	0	2,439	1,576	(863)
Early Intervention & Support	696	1,004	936	(68)
Policy & Governance	441	347	159	(188)
Business Development & Growth	24,792	27,400	22,211	(5,189)
<b>Capital Expenditure Total</b>	<b>26,051</b>	<b>31,190</b>	<b>24,882</b>	<b>(6,308)</b>

Additional analysis of the schemes included in the 2018/19 Capital programme was presented to Executive Cabinet on 20 June 2019 in the report "Provisional Revenue and Capital Outturn 2018/19".

Financing of the capital expenditure is shown in the following table.

<b>Table 2 - Capital Financing</b>	<b>2018/19 Estimate £000</b>	<b>2018/19 Revised £000</b>	<b>2018/19 Actual £000</b>	<b>2018/19 Variance £000</b>
Capital expenditure from Table 1	26,051	31,190	24,882	(6,308)
Capital Receipts	(491)	(645)	(576)	69
Grants & Contributions	(13,148)	(16,799)	(13,896)	2,903
Revenue and Reserves	(2,197)	(2,857)	(2,092)	765
<b>Net financing needed for year</b>	<b>10,215</b>	<b>10,889</b>	<b>8,318</b>	<b>(2,571)</b>

## THE COUNCIL'S OVERALL BORROWING NEED

### 12. Capital Financing Requirement 2018/19

The Council's underlying need to borrow for capital expenditure is termed the Capital Financing Requirement (CFR). This figure is a gauge of the Council's indebtedness. The CFR results from the capital activity of the Council and resources used to pay for the capital spend. It represents the unfinanced capital expenditure in 2018/19 plus prior years' unfinanced capital expenditure which has not yet been paid for by revenue or other resources.

Part of the Council's treasury activity is to address the funding requirement for this borrowing need. Depending on the capital expenditure programme, the Council's cash position is organised to ensure that sufficient cash is available to meet the capital plans and cash flow requirements. This may be sourced through borrowing from external bodies (such as the Government, through the Public Works Loan Board (PWLB), or the money markets), or utilising temporary cash resources within the Council.

The CFR is not matched in full by external borrowing, so the Council is said to have under borrowed by using its own cash balances to finance capital expenditure. There is some loss of interest as a result, but had external loans been taken the interest payable would have been at a higher rate. Use of the Council's own cash helps to achieve savings in net interest.

The Council's underlying borrowing need is not allowed to rise indefinitely. Statutory controls are in place to ensure that capital assets are broadly charged to revenue over the life of the asset. The Council is required to make an annual revenue charge, called the Minimum Revenue Provision (MRP), to reduce the CFR. This is effectively a repayment of the borrowing need. This differs from the treasury management arrangements which ensure that cash is available to meet capital commitments. External debt can be borrowed and repaid, but this does not change the CFR.

The total CFR can also be reduced by:

- the application of additional capital financing resources (such as unapplied capital receipts); or
- charging more than the statutory revenue charge (MRP) each year through a Voluntary Revenue Provision (VRP).

The 2018/19 MRP Policy (as required by MHCLG Guidance) was approved by Council as part of the Treasury Strategy 2018/19 to 2020/21 on 27 February 2018. The Council's CFR for the year is shown in Table 3 below, and represents a key prudential indicator. It includes financing by means of a finance lease for leisure related capital investment, which increases the Council's borrowing need.

<b>Table 3 - Capital Financing Requirement</b>	<b>2018/19 Estimate £000</b>	<b>2018/19 Revised £000</b>	<b>2018/19 Actual £000</b>	<b>2018/19 Variance £000</b>
Opening CFR	43,231	41,506	41,507	1
Net financing need for the year (Table 2)	10,215	10,889	8,318	(2,571)
Less MRP/VRP	(594)	(516)	(542)	(26)
<b>Closing CFR</b>	<b>52,852</b>	<b>51,879</b>	<b>49,283</b>	<b>(2,596)</b>

See also Note 36 Capital Expenditure and Financing in the Statement of Accounts 2018/19.

### 13. The CFR and Gross Debt

Borrowing activity is constrained by prudential indicators for gross borrowing and the CFR, and by the authorised limit.

**Gross borrowing and the CFR.** In order to ensure that borrowing levels are prudent over the medium term and are only for capital purposes, the Council ensures that its gross external borrowing does not, except in the short term, exceed the total of the CFR in the preceding year (2017/18) plus the estimates of any additional CFR for the current (2018/19) and next two financial years. This essentially means that the Council is not borrowing to support revenue expenditure. This indicator would allow the Council some flexibility to borrow in advance of its immediate capital needs, but this was not required in 2018/19.

Table 4 shows the Council's gross borrowing position against the CFR. The Council has complied with this prudential indicator.

Table 4 - Portfolio Position	2018/19	2018/19	2018/19	2018/19
	Estimate	Revised	Actual	Variance
	£000	£000	£000	£000
Debt at 1 April	20,252	15,252	15,252	0
Other long-term liabilities (OLTL)	16	15	15	0
Total gross debt 1 April	20,268	15,267	15,267	0
Change in Debt	10,953	9,627	5,738	(3,889)
Change in OLTL	0	0	0	0
Change in gross debt	10,953	9,627	5,738	(3,889)
Gross debt 31 March	31,221	24,894	21,005	(3,889)
Capital Financing Requirement (Table 3)	52,852	51,879	49,283	(2,596)
<b>Under / (over) borrowing</b>	<b>21,631</b>	<b>26,985</b>	<b>28,278</b>	<b>1,293</b>

An analysis of external borrowing as at 31 March 2019 is presented in Appendix A. The figures for short-term borrowing include accrued interest payable to lenders, so that the external borrowing matches the total shown in the Balance Sheet in the Statement of Accounts 2018/19.

**The authorised limit.** This is the “affordable borrowing limit” required by s3 of the Local Government Act 2003. Once this has been set, the Council does not have the power to borrow above this level. The revised limit set for 2018/19 by Council on 26 February 2019 was £27.894m and actual gross debt shown in Table 4 was £21.005m. The Council has maintained gross borrowing within its authorised limit.

**The operational boundary.** This is the expected borrowing position of the Council during the year. Periods where the actual position is either below or over the boundary are acceptable subject to the authorised limit not being breached. The revised operational boundary set for 2018/19 was £24.894m and actual gross debt at 31 March 2019 was £21.005m.

**Actual financing costs as a proportion of net revenue stream.** This indicator identifies the trend in the cost of capital (borrowing and other long term obligation costs net of investment income), against the revenue stream (council tax, business rates, and various Government grants).

Table 5 - Ratio of Financing Costs to Net Revenue Stream	2018/19	2018/19	2018/19
	Estimate	Actual	Variance
	%	%	%
Ratio	8.86	6.83	(2.03)

The actual ratio was lower than estimated in 2018/19 because net financing costs were lower than estimated and the revenue stream was higher.

**TREASURY POSITION AS AT 31 MARCH 2019**14. Treasury management debt and investment position

The Council's treasury management debt and investment position is organised to ensure adequate liquidity for revenue and capital activities, security for investments, and to manage risks within all treasury management activities. Gross debt is shown in Table 4, and Investments (including Cash and Cash equivalents but excluding accrued interest) are shown in Table 6.

<b>Table 6 - Year-End Resources 2018/19</b>	<b>2018/19 Estimate £000</b>	<b>2018/19 Revised £000</b>	<b>2018/19 Actual £000</b>	<b>2018/19 Variance £000</b>
Core Funds/Working Balances	(22,631)	(27,985)	(31,126)	(3,141)
Under/(over) borrowing (Table 4)	21,631	26,985	28,278	1,293
<b>Investments</b>	<b>(1,000)</b>	<b>(1,000)</b>	<b>(2,848)</b>	<b>(1,848)</b>

A detailed analysis of Short Term Investments and Cash and Cash Equivalents is presented as Appendix B. Accrued interest is shown so that figures match those in the Balance Sheet and notes in the Statement of Accounts 2018/19. The maximum balance invested with each counterparty complied with the limit approved by the Council. Appendix C presents the approved counterparty limits for 2018/19.

Council approved a maximum of £4m should be invested with UK local authorities for more than 365 days and up to two years. No sums were invested for more than 365 days.

<b>Table 7 - Maximum Principal Sums Invested &gt; 365 Days</b>	<b>2018/19 Estimate £000</b>	<b>2018/19 Revised £000</b>	<b>2018/19 Actual £000</b>	<b>2018/19 Variance £000</b>
UK Government	0	0	0	0
UK Local Authorities **	4,000	4,000	0	(4,000)
UK Banks & Building Societies	0	0	0	0
Non-UK Banks	0	0	0	0
<b>Total</b>	<b>4,000</b>	<b>4,000</b>	<b>0</b>	<b>(4,000)</b>

\*\* Maximum of £2 million per local authority

**INVESTMENT PERFORMANCE 2018/19**15. Review of Performance

Investment returns remained low during 2018/19. When the treasury management strategy for 2018/19 was approved, the expectation was that Bank Rate would rise from 0.50% to 0.75%. At the start of 2018/19, and after UK GDP growth had proved disappointingly weak in the first few months of 2018, the expectation for the timing of this increase was pushed back from May to August 2018. Investment interest rates were therefore on a gently rising trend in the first half of the year after April, in the anticipation that the MPC would raise Bank Rate in August. This duly happened at the MPC meeting on 2 August 2018.

Continued uncertainty in the aftermath of the 2008 financial crisis has promoted a cautious approach whereby investments would continue to be dominated by low counterparty risk considerations, resulting in relatively low returns compared to borrowing rates. The Council has continued to achieve budget savings by maintaining a position of under borrowing, which means that it has used its own cash balances to finance capital expenditure rather than taking external loans.

**Investment Policy.** The Council's investment policy is governed by MHCLG investment guidance, which has been implemented in the annual investment strategy approved by Council for 2018/19. This policy sets out the approach for choosing investment counterparties, and is based on credit ratings provided by the three main credit rating agencies, supplemented by additional market data (such as ratings outlooks, credit default swaps, banks share prices etc.). Link Asset Services, the Council's treasury advisors, provide suggested investment durations for the approved counterparties. During 2018/19 cash was not invested in term deposits. To manage the Council's cash flow, balances were held only in highly liquid accounts, specifically in call accounts and MMFs.

Investment performance in 2018/19 is presented in Table 8.

<b>Table 8 - Investment Performance 2018/19</b>	<b>Average Daily Investment £000</b>	<b>Interest 2018/19 £</b>	<b>Average Rate %</b>
Fixed Term Deposits	0	0	n/a
Notice Accounts	0	0	n/a
Call Accounts	2,011	11,380	0.57
Money Market Funds	4,828	30,393	0.63
Debt Management Office DMADF	0	0	n/a
<b>Total</b>	<b>6,839</b>	<b>41,773</b>	<b>0.61</b>

The average return of 0.61% in 2018/19 compares to the 0.26% achieved in 2017/18, and reflects the gradual increase in interest rates.

The average 7-day LIBID for 2018/19 was 0.50%. The target to exceed for 2018/19 was 7-day LIBID plus 15%, which was 0.57%. This was achieved.

Link Asset Services suggested a budgeted investment earnings rate of 0.60% for 2018/19, based on investment durations of up to three months. This was a challenging target, because cash was held only in liquid accounts instead of being placed as term deposits. However, the target rate was exceeded by the smallest of margins.

## **MONITORING JUNE QUARTER 2019/20**

### 16. Borrowing and Investments

External borrowing as at 30 June 2019 is presented in Appendix E. Temporary borrowing from another local authority has been repaid. One loan for £2.5m has been taken from PWLB. Further loans will be taken during the year. To finance the capital programme, and these have been budgeted for.

Investments as at 30 June 2019 are presented in Appendix F. Cash balances available to invest fluctuate throughout the year, depending on the timing of receipts and payments. Currently the balance is higher than at 31 March 2019, and it is likely to be higher at points during the remainder of the financial year. However, the tendency is for the balance to reduce by 31 March.

Appendix G presents the counterparty limits for 2019/20. It is unlikely that cash will be invested in anything other than liquid accounts with instant access.

17. Prudential and Treasury Indicators and Investment Counterparty Limits

A report recommending purchase of a major property asset is being presented to the Full Council meeting of 23 July 2019. If the purchase of the asset is approved by Council, it will be necessary to amend a number of Prudential and Treasury Indicators, in particular the Operational Boundary and Authorised Limit to allow funding of the purchase by external borrowing. In addition, it is recommended that investment counterparty limits should be increased temporarily in case the borrowing is taken before payment for the purchase is made. (Borrowing from PWLB is arranged two working days before the cash is received.) This would allow any surplus cash to be placed temporarily with approved counterparties at a higher rate of interest than if placed in the Debt Management Office's Debt Management Account Deposit Facility.

Should the asset purchase be approved by Council, and the Prudential and Treasury Indicators and counterparty limits be revised, these will be circulated for information only. Subsequent treasury monitoring during 2019/20 would be against the revised indicators and limits.

## **ADVICE OF LINK ASSET SERVICES**

18. Treasury Advisors' review of 2018/19 and forward looking commentaries

Link Asset Services' review of the Economy and Interest Rates in 2018/19 is presented as Appendix D.

A detailed economic commentary on developments during the quarter ended 30 June 2019 is presented as Appendix H.

Appendix I is a detailed commentary on interest rate forecasts. This includes an updated forecast for the rate of return on cash invested for 2019/20 and subsequent years. The suggested rate of 0.75% for 2019/20 will be challenging and is unlikely to be achieved. It exceeds the rate being earned in MMF accounts at present, and is higher than the call account rate. It would only be achievable if cash could be placed in term deposits for six to twelve months, but this is not feasible.

## **IMPLICATIONS OF REPORT**

19. This report has implications in the following areas and the relevant Directors' comments are included:

Finance	√	Customer Services	
Human Resources		Equality and Diversity	
Legal		Integrated Impact Assessment required?	
No significant implications in this area		Policy and Communications	

**COMMENTS OF THE STATUTORY FINANCE OFFICER**

20. This report meets statutory reporting requirements. Its statistical content is consistent with the Council’s financial accounts for the financial year 2018/19.

**COMMENTS OF THE MONITORING OFFICER**

21. The Monitoring Officer has no comments.

GARY HALL  
 CHIEF EXECUTIVE & STATUTORY FINANCE OFFICER

<b>Background Papers</b>			
<b>Document</b>	<b>Date</b>	<b>File</b>	<b>Place of Inspection</b>
Treasury Strategy 2018/19 Treasury Strategy 2019/20	27/2/18 26/2/19		Town Hall

<b>Report Author</b>	<b>Ext</b>	<b>Date</b>	<b>Doc ID</b>
Michael Jackson	5490	16 July 2019	Treasury Management Annual Report 2018-19 and June Quarter Monitoring 2019-20.docx

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## External Borrowing 31 March 2019

Type of loan	Loan number	Start date	Maturity date	Interest Rate %	Short-Term Borrowing £000	Long-Term Borrowing £000	Total £000
PWLB loan - EIP	497713	20/08/2010	20/08/2019	1.93	175	0	175
PWLB loan - Annuity	502699	29/11/2013	26/05/2023	2.42	216	769	985
PWLB loan - Annuity	502698	29/11/2013	26/05/2028	3.18	141	1,246	1,387
PWLB loan - EIP	506766	21/12/2017	21/12/2031	1.76	190	2,143	2,333
PWLB loan - Annuity	502697	29/11/2013	26/05/2033	3.69	103	1,487	1,590
PWLB loan - Annuity	502696	29/11/2013	26/11/2038	4.02	80	1,637	1,717
PWLB loan - Annuity	502695	29/11/2013	26/11/2043	4.18	66	1,723	1,789
PWLB loan - EIP	508381	17/01/2019	17/01/2054	2.51	101	2,914	3,015
PWLB loan - EIP	508382	17/01/2019	17/01/2059	2.58	91	2,925	3,016
PWLB loan - Annuity	502694	29/11/2013	26/11/2063	4.34	36	1,605	1,641
PWLB loan - Maturity	506764	21/12/2017	21/12/2067	2.31	16	2,500	2,516
Public Works Loan Board total					1,215	18,949	20,164
Mole Valley District Council					1,000	0	1,000
Local Authorities total					1,000	0	1,000
<b>External Borrowing total</b>					<b>2,215</b>	<b>18,949</b>	<b>21,164</b>

Note: Short-Term Borrowing includes interest accrued in respect of 2018/19 which will be paid in the following financial year. This matches presentation of borrowing figures in the Statement of Accounts 2018/19.

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## List of Investments as at 31 March 2019

Counterparty	Type	Sum Invested £000	Accrued Interest £000	Total 31 March 2019 £000	Rate %	Link Suggested Duration	CBC Approved Duration	Date Invested	Maturity Date
Barclays BPA Deposit Account	Call	1,500	47	1,547	0.50%	6 mths	6 mths	On Call	n/a
Other Cash Balances			19	19					
<b>Call Accounts sub total</b>		<b>1,500</b>	<b>66</b>	<b>1,566</b>					
BlackRock	MMF	1,000	3	1,003	0.64%	(1)	AAA-rated	On Call	n/a
<b>Money Market Funds sub total</b>		<b>1,000</b>	<b>3</b>	<b>1,003</b>					
<b>Other Cash &amp; Cash Equivalents Balances</b>		348		348					
<b>Cash and Cash Equivalents</b>		<b>2,848</b>	<b>69</b>	<b>2,917</b>					

## Notes

(1) MMF rates are variable. This is the calculated average for the year to March

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**Investment Counterparties 2018/19**

Category	Institutions	LAS Colour Code	Maximum Period	Limit per Institution
<b>Banks &amp; Building Societies: Call Accounts /Term Deposits / Certificates of Deposit (CDs)</b>				
Government related/guaranteed entities	DMADF (DMO)	Yellow	6 months	Unlimited
	UK Local Authority	Yellow	1 year 2 years	£3m per LA £2m per LA; £4m in total
UK part-nationalised institutions	Royal Bank of Scotland group	Blue	1 year	£4m per group
UK-incorporated Institutions	UK banks and building societies of high credit quality	Orange	1 year	£3m per group (or institution if independent)
		Red	6 months	
		Green	3 months	
<b>Money Market Funds</b>				
Money Market Funds (CNAV and LVNAV)	MMFs of high credit quality - AAA rated		Instant access	£3m per fund

Maximum durations suggested by Link Asset Services (LAS)

<b>Yellow</b>	5 years
<b>Purple</b>	2 years
<b>Blue</b>	1 year (only applies to nationalised or semi nationalised UK Banks)
<b>Orange</b>	1 year
<b>Red</b>	6 months
<b>Green</b>	100 days
<b>No colour</b>	Not to be used

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## The Economy and Interest Rates 2018/19

**UK.** After weak **economic growth** of only 0.2% in quarter one of 2018, growth picked up to 0.4% in quarter 2 and to a particularly strong 0.7% in quarter 3, before cooling off to 0.2% in the final quarter. Given all the uncertainties over Brexit, this weak growth in the final quarter was as to be expected. However, some recovery in the rate of growth is expected going forward. The annual growth in Q4 came in at 1.4% y/y confirming that the UK was the third fastest growing country in the G7 in quarter 4.

After the Monetary Policy Committee raised **Bank Rate** from 0.5% to 0.75% in August 2018, it is little surprise that they have abstained from any further increases since then. We are unlikely to see any further action from the MPC until the uncertainties over Brexit clear. If there were a disorderly exit, it is likely that Bank Rate would be cut to support growth. Nevertheless, the MPC has been having increasing concerns over the trend in **wage inflation** which peaked at a new post financial crisis high of 3.5%, (excluding bonuses), in the three months to December before falling only marginally to 3.4% in the three months to January. British employers ramped up their hiring at the fastest pace in more than three years in the three months to January as the country's labour market defied the broader weakness in the overall economy as Brexit approached. The number of people in work surged by 222,000, helping to push down the unemployment rate to 3.9 percent, its lowest rate since 1975. Correspondingly, the total level of vacancies has risen to new highs.

As for **CPI inflation** itself, this has been on a falling trend since peaking at 3.1% in November 2017, reaching a new low of 1.8% in January 2019 before rising marginally to 1.9% in February. However, in the February 2019 Bank of England Inflation Report, the latest forecast for inflation over both the two and three year time horizons remained marginally above the MPC's target of 2%.

The rise in wage inflation and fall in CPI inflation is good news for consumers as their spending power is improving in this scenario as the difference between the two figures is now around 1.5%, i.e. a real terms increase. Given the UK economy is very much services sector driven, an increase in **household spending power** is likely to feed through into providing some support to the overall rate of economic growth in the coming months.

**Brexit.** The Conservative minority government has so far, (8.4.19), been unable to muster a majority in the Commons over its Brexit deal. The EU has set a deadline of April 12 for the House of Commons to propose what form of Brexit it would support. If another form of Brexit, other than the proposed deal, does get a majority by April 12, then it is likely there will need to be a long delay to Brexit to allow time for negotiations with the EU. It appears unlikely that there would be a Commons majority which would support a disorderly Brexit or revoking article 50, (cancelling Brexit). There would also need to be a long delay if there is no majority for any form of Brexit. If that were to happen, then it increases the chances of a general election in 2019; this could result in a potential loosening of monetary policy and therefore medium to longer dated gilt yields could rise on the expectation of a weak pound and concerns around inflation picking up.

**USA.** President Trump's massive easing of fiscal policy in 2018 fuelled a (temporary) boost in consumption in 2018 which generated an upturn in the strong rate of growth; this rose from 2.2%, (annualised rate) in quarter 1 of 2018 to 4.2% in quarter 2, 3.5% in quarter 3 and then back to 2.2% in quarter 4. The annual rate came in at 2.9% for 2018, just below President Trump's aim

for 3% growth. The strong growth in employment numbers has fed through to an upturn in wage inflation which hit 3.4% in February, a decade high point. However, CPI inflation overall fell to 1.5% in February, a two and a half year low, and looks to be likely to stay around that number in 2019 i.e. below the Fed's target of 2%. The Fed increased rates another 0.25% in December to between 2.25% and 2.50%, this being the fourth increase in 2018 and the ninth in the upward swing cycle. However, the Fed now appears to be edging towards a change of direction and admitting there may be a need to switch to taking action to cut rates over the next two years. Financial markets are now predicting two cuts of 25 bps by the end of 2020.

**EUROZONE.** The European Central Bank (ECB) provided massive monetary stimulus in 2016 and 2017 to encourage growth in the EZ and that produced strong annual growth in 2017 of 2.3%. However, since then the ECB has been reducing its monetary stimulus measures and growth has been weakening - to 0.4% in quarters 1 and 2 of 2018, and then slowed further to 0.2% in quarters 3 and 4; it is likely to be only 0.1 - 0.2% in quarter 1 of 2019. The annual rate of growth for 2018 was 1.8% but is expected to fall to possibly around half that rate in 2019. The ECB completely ended its programme of quantitative easing purchases of debt in December 2018, which means that the central banks in the US, UK and EU have all ended the phase of post financial crisis expansion of liquidity supporting world financial markets by purchases of debt. However, the downturn in growth, together with inflation falling well under the upper limit of its target range of 0 to 2%, (but it aims to keep it near to 2%), prompted the ECB to take new measures to stimulate growth. With its refinancing rate already at 0.0% and the deposit rate at -0.4%, it has probably reached the limit of cutting rates. At its March 2019 meeting it said that it expects to leave interest rates at their present levels "at least through the end of 2019", but that is of little help to boosting growth in the near term. Consequently, it also announced a third round of TLTROs; this provides banks with cheap borrowing every three months from September 2019 until March 2021 which means that, although they will have only a two-year maturity, the Bank is making funds available until 2023, two years later than under its previous policy. As with the last round, the new TLTROs will include an incentive to encourage bank lending, and they will be capped at 30% of a bank's eligible loans.

**CHINA.** Economic growth has been weakening over successive years, despite repeated rounds of central bank stimulus; medium term risks are increasing. Major progress still needs to be made to eliminate excess industrial capacity and the stock of unsold property, and to address the level of non-performing loans in the banking and credit systems.

**JAPAN** - has been struggling to stimulate consistent significant GDP growth and to get inflation up to its target of 2%, despite huge monetary and fiscal stimulus. It is also making little progress on fundamental reform of the economy.

**WORLD GROWTH.** Equity markets are currently concerned about the synchronised general weakening of growth in the major economies of the world: they fear there could even be a recession looming up in the US, though this fear is probably overdone.

## External Borrowing 30 June 2019

Type of loan	Loan number	Start date	Maturity date	Interest Rate %	Total Borrowing £000
PWLB loan - EIP	497713	20/08/2010	20/08/2019	1.93	175
PWLB loan - Annuity	502699	29/11/2013	26/05/2023	2.42	873
PWLB loan - Annuity	502698	29/11/2013	26/05/2028	3.18	1,310
PWLB loan - EIP	506766	21/12/2017	21/12/2031	1.76	2,232
PWLB loan - Annuity	502697	29/11/2013	26/05/2033	3.69	1,528
PWLB loan - Annuity	502696	29/11/2013	26/11/2038	4.02	1,666
PWLB loan - Annuity	502695	29/11/2013	26/11/2043	4.18	1,744
PWLB loan - EIP	509178	24/04/2019	24/04/2044	2.23	2,500
PWLB loan - EIP	508381	17/01/2019	17/01/2054	2.51	3,000
PWLB loan - EIP	508382	17/01/2019	17/01/2059	2.58	3,000
PWLB loan - Annuity	502694	29/11/2013	26/11/2063	4.34	1,611
PWLB loan - Maturity	506764	21/12/2017	21/12/2067	2.31	2,500
Public Works Loan Board total					<u>22,139</u>
None					0
Local Authorities total					<u>0</u>
<b>External Borrowing total</b>					<b><u>22,139</u></b>

Borrowing will be split between short-term and long-term at 31 March 2020, and accrued interest included in the Balance Sheet total for short-term borrowing will be added.

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## List of Investments as at 30 June 2019

Counterparty	Type	Total 30 June 2019 £000	Rate %	Link Suggested Duration	CBC Approved Duration	Date Invested	Maturity Date
Barclays BPA Deposit Account	Call	526	0.60%	6 mths	6 mths	On Call	n/a
<b>Call Accounts sub total</b>		<b>526</b>					
BlackRock	MMF	2,500	0.73%	(1)	AAA-rated	On Call	n/a
Federated	MMF	2,500	0.72%				
<b>Money Market Funds sub total</b>		<b>5,000</b>					
<b>Cash Balance</b>		<b>5,526</b>					

## Notes

(1) MMF rates are variable. This is the calculated average for the year to June

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**Investment Counterparties 2019/20**

Category	Institutions	LAS Colour Code	Maximum Period	Limit per Institution
<b>Banks &amp; Building Societies: Call Accounts /Term Deposits / Certificates of Deposit (CDs)</b>				
Government related/guaranteed entities	DMADF (DMO)	Yellow	6 months	Unlimited
	UK Local Authority	Yellow	1 year 2 years	£3m per LA £2m per LA; £4m in total
UK part-nationalised institutions	Royal Bank of Scotland group	Blue	1 year	£4m per group
UK-incorporated Institutions	UK banks and building societies of high credit quality	Orange	1 year	£3m per group (or institution if independent)
		Red	6 months	
		Green	3 months	
<b>Money Market Funds</b>				
Money Market Funds	MMFs of high credit quality - AAA rated		Instant access	£3m per fund

Maximum durations suggested by Link Asset Services (LAS)

<b>Yellow</b>	5 years
<b>Purple</b>	2 years
<b>Blue</b>	1 year (only applies to nationalised or semi nationalised UK Banks)
<b>Orange</b>	1 year
<b>Red</b>	6 months
<b>Green</b>	100 days
<b>No colour</b>	Not to be used

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## Detailed economic commentary on developments during quarter ended 30 June 2019

*This section has been provided by Capital Economics to Link Asset Services and therefore includes their views and opinions of future trends and events.*

### During the quarter ended 30 June 2019 (*quarter 2 of 2019*):

Brexit was delayed until 31st October 2019;

GDP rose by a solid 0.5% q/q in Q1, but contracted at the start of Q2;

The fundamentals that determine consumer spending remained healthy;

Inflation bobbed around the Bank of England's 2% target;

There was a widespread fall in investors' global interest rate expectations;

The MPC kept Bank Rate on hold at 0.75%, but struck a more dovish tone;

The economy posted a **stronger-than-expected expansion in Q1 of 0.5% q/q**, but that was probably a temporary high as activity was brought forward ahead of the original 29<sup>th</sup> March Brexit deadline. As a result, we doubt Q2 will be as good. Indeed, stock building added 0.9 ppts to the quarterly rate of GDP growth in Q1 as firms built up their stocks ahead of a possible no deal Brexit. Admittedly, a large chunk of these stocks were imported, so the net boost was smaller than this – perhaps around 0.3 ppts. Nonetheless, stock building will exert a similar *drag* on GDP growth in Q2.

In fact, the chances of the economy escaping a **quarterly contraction in Q2** seem to be receding in light of the latest survey and official data. GDP fell by 0.4% m/m in April, the largest monthly fall in three years. This partly reflected the decision by car manufacturers to bring forward their annual car plant shutdowns from August to April in case of a no deal. As a result, vehicle production dropped by 24% m/m knocking 0.2 ppts off overall GDP in April. Granted, the Society of Motor Manufacturers & Traders (SMMT) car production data suggest that these losses were recouped in May. After all, production rose by 60% m/m, which probably provided a 0.3 ppts boost to GDP in May.

Even so, GDP may still struggle to expand in Q2 as a whole – we have pencilled in a contraction of 0.1% q/q. Indeed, June's manufacturing PMI suggests the sector is still suffering from a Brexit-related hangover and a weak global economy and probably shrank in Q2.

What's more, household spending will probably fall short of the impressive 0.6% q/q rise in Q1. Retail sales volumes were flat in April and fell by 0.5% m/m in May. But a major slump in consumer spending in Q2 or further ahead seems unlikely.

Indeed, looking through the Brexit volatility, while consumer confidence has been relatively weak, the fundamentals that determine consumer spending have remained healthy. Admittedly, **employment** only rose by 32,000 in the three months to April, well below the

98,000 average monthly rise in 2018. But with the unemployment rate still at its 45-year low of 3.8%, the tightness in the labour market has pushed up wage growth. Indeed, the headline measure excluding bonuses nudged up from 3.3% in March to 3.4% in April – just below the decade high of 3.5%. And with inflation bobbing around the Bank of England's 2% target, **real wage growth has reached its highest rate since late 2016.**

**CPI inflation** dropped from 2.1% in April to 2.0% in May as the previous upward pressure on airfares due to the later timing of Easter unwound. Underlying price pressures look subdued too. Core services inflation fell from 3.1% to 2.9% in May and input price inflation dropped from 4.5% to just 1.3%, its lowest rate since June 2016. At the same time, output price inflation nudged down from 2.1% in May to 1.8%.

Nonetheless, there are still some reasons to think that CPI inflation will edge up at the end of the year as rising agricultural prices push up food inflation and core inflation starts to pick up now that the lagged effects of a fall in import price inflation have come to an end. What's more, the recent pick-up in wage costs is consistent with a **rise in core services inflation to just shy of 4% in early-2020.**

**Bank Rate.** Meanwhile, investors have reassessed the outlook for UK monetary policy and have gone from expecting rate hikes in early May to now expecting *cuts*. This is partly because of the weakening global outlook and rising expectations of rate cuts in the US and euro-zone. But growing concerns over a no deal Brexit have also weighed on expectations. Indeed, at the Treasury Committee in June, the Governor of the Bank of England, Mark Carney, gave the strongest hint yet that in a no deal Brexit, the Monetary Policy Committee (MPC) would cut rates. In that scenario, we think that rates would be cut fairly quickly from 0.75% to 0.25%.

Meanwhile, it wasn't surprising that the **MPC** kept Bank Rate on hold at 0.75% at June's meeting given the drop in GDP in April and inflation falling back to target in May. What was perhaps more surprising after its hawkish comments in May, was the Committee's new-found dovish tone. The MPC noted that "the near term data have been broadly in line with the May Inflation Report, but that **downside risks to growth have increased.**" It also sounded more concerned about the possibility of a no deal Brexit. Instead of chastising the market for underestimating how much interest rates might rise as it did in May, the MPC pointed out that "the ongoing tension between the MPC's forecast...of a smooth Brexit and the assumptions about alternative Brexit scenarios that were priced into financial market variables".

Turning to fiscal policy, regardless of the Brexit situation, all roads appear to lead to **looser fiscal policy.** There was good news for the Chancellor at the end of 2018/19. Public sector net borrowing (PSNB ex.) came in only just above the OBR's February forecast of £23.4bn in 2018/19 – a far cry from the £37.1bn the OBR predicted in March 2018. Admittedly, PSNB ex. will probably rise slightly this year due to a number of promises made by the current Chancellor Phillip Hammond in the 2018 Budget, including spending on the NHS. But the OBR's projections still suggest that there is around £27bn headroom against the current fiscal rule.

Indeed, both **Johnson and Hunt** are promising wider ranging and bigger tax cuts and spending rises with the policies announced so far adding up to £20bn and £40bn a year

respectively. Of course, using up the headroom is not free money. It simply means that there is room to increase borrowing without breaking the current fiscal rule that the cyclically-adjusted budget deficit has to be below 2% of GDP in 2020/21.

Of course, how much borrowing rises depends on **the outcome of Brexit**.

- If a deal is reached, faster GDP growth would reduce public spending, raise tax revenues and cut the deficit, perhaps allowing fiscal policy to be loosened without borrowing rising at all.
- However, in a no deal, the weaker economy would push up the deficit. As a result, the new Chancellor would have to choose between keeping the fiscal rules intact or loosening fiscal policy to give the economy a boost. We think that he/she would opt for the latter, arguing that exceptional circumstances allowed for his/her fiscal rules to be suspended.

The fact that both Johnson and Hunt seem willing to leave the EU without a deal means **the chances of a general election** and a Labour government have also risen, as Parliament may vote to bring down the government. Looser fiscal policy seems to be on the cards under a Labour Government too. Admittedly, Labour only plans to raise borrowing by a small amount, in part because it plans to pay for higher day-to-day spending with tax increases. But there is a big question mark over whether Labour would manage to raise as much money from its planned tax rises as it claims. Indeed, the Institute for Fiscal Studies thinks that, at best, Labour will raise £41bn rather than £49bn, leaving a “manifesto black hole” of nearly £10bn.

Turning to the **financial markets**, concerns over global growth and subsequent falls in interest rate expectations have caused **developed market bond yields to slump** – the 10-year gilt yield fell from 1.05% at the start of the quarter to 0.81%. However, lower interest rate expectations have supported increases in equities. The FTSE 100 finished the quarter around 2.5% higher although it underperformed compared to the S&P 500 perhaps since the FTSE 100 has a high concentration of energy firms, so the fall in oil prices over the quarter has probably weighed on its overall performance.

Meanwhile, despite the narrowing in the gap between 2-year government bond yields in the US and the UK to around 100bps, which would normally put upward pressure on sterling in relation to the dollar, **sterling** has fallen to \$1.26 this quarter. This is mainly because investors have become more concerned about a no deal Brexit with betting markets now pricing in about a 30% chance of a no deal compared with just 15% at the start of May.

Elsewhere, in the **US**, the markets are convinced the **Fed will start to cut rates in July**. But we think that a temporary truce in the trade war means it is slightly more likely that a cut will be delayed until September. However, a sharp slowdown in GDP growth in the second half of 2019 should still prompt the Fed to cut interest rates by a cumulative 75bps.

Meanwhile GDP growth in the **euro-zone** will probably only manage 0.2% q/q in Q2. Our expectations for interest rates in the euro-zone are roughly in line with market expectations – we have pencilled in a 10bps cut in September from -0.4% currently to -0.5%. What’s more, we expect the ECB to re-launch QE in October.

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## Detailed commentary on interest rate forecasts

Our treasury management advisers, Link Asset Services provided us on 1 July with the following update to their interest rate forecasts.

We normally update our interest rate forecasts after the Bank of England releases its quarterly interest rate forecast. However, these are far from being normal times! What we have seen since our previous forecasts on 7 May is a sharp deterioration of economic growth news, and expectations for growth, in the major economies of the world – the US, EU and China. This has led to a sharp downturn in government bond yields, lower than we previously anticipated. We, therefore, felt that we could not wait until the next quarterly Inflation Report on 1 August to take account of this sharp movement in financial markets.

As for the UK itself and forecasts for Bank Rate, we have moved back our forecast for the first increase from quarter 1 2020 to quarter 3 2020. Our central assumption is that there will be a reasonable form of muddle through Brexit. But it is clear to all that there are very many uncertainties around this central assumption.

In addition, we now also have a greater number of uncertainties around our Bank Rate and PWLB rate forecasts e.g.:

- when / whether Brexit will occur
- hard Brexit / deal Brexit
- will there be an extension of the Brexit deadline / would the EU agree to an extension?

There are also a great number of uncertainties around the political situation and the Tory leadership contest e.g.:-

- the fiscal policy changes proposed by both candidates to counter the effects of a hard Brexit through tax cuts etc.
- how MPs will vote on Brexit and these fiscal proposals
- how would the Bank of England respond to a major fiscal loosening
- could MPs vote to revoke article 50 (withdrawal from EU)
- whether there could be a general election if the Commons ends up in stalemate
- the chances of a no deal Brexit increasing, as negotiating a deal before 31 October looks challenging

In order to make any forecast we have, as previously mentioned, had to make one central assumption – a reasonable muddle-through outcome for Brexit. If the facts change, our forecasts will also change. As events unfold it is possible we may see 50bps movement in rates and yields at any time e.g. a hard Brexit could result in an immediate 50 bps cut in Bank Rate. But that is not our central assumption.

Our key advice to clients in the midst of such large-scale uncertainties is to focus on managing risk, rather than making a bet on one outcome or the other.

A key issue facing all central banks, except the US Fed, is that they have very little ammunition, in terms of normal monetary policy measures, to take action to counter the next economic downturn. The Bank of England and the MPC will have an agenda to restock their ammunition by raising Bank Rate as soon as is feasible, and, at a later time, possibly unwinding quantitative easing.

On the international scene, after the Fed raised central rates to 2.25% – 2.50% on 19 December, it now appears that the chance of any further increases has probably ended and markets are now forecasting cumulative cuts of 1% to 1.25% over the next year or so.

The ECB has had to change tack to committing to put more monetary stimulus into the economy in order to stimulate lack lustre economic growth. Core inflation is likely to stay well below its target rate. It is becoming increasingly likely that there could be some marginal change downwards in the current negative central rates and a resumption of quantitative easing in order to stimulate economic growth and so encourage a rise in inflation towards its target of near to, but under, 2%.

Economic growth prospects in China have also cooled despite various monetary policy measures to stimulate economic growth.

### **The balance of risks to the UK**

- The overall balance of risks to economic growth in the UK is probably to the downside due to the weight of all the uncertainties over Brexit.
- The balance of risks to increases in Bank Rate and shorter term PWLB rates are broadly similarly to the downside.

One risk that is both an upside and downside risk is that all central banks are now working in very different economic conditions than before the 2008 financial crash as there has been a major increase in consumer and other debt due to the exceptionally low levels of borrowing rates that have prevailed for eleven years since 2008. This means that the neutral rate of interest in an economy, (i.e. the rate that is neither expansionary nor deflationary), is difficult to determine definitively in this new environment, although central banks have made statements that they expect it to be much lower than before 2008. Central banks could therefore over or under-do increases in central interest rates.

### **Downside risks to current forecasts for UK gilt yields and PWLB rates currently include:**

- **Brexit** – if it were to cause significant economic disruption and a major downturn in the rate of growth.

- **Bank of England** takes action too quickly, or too far, over the next three years to raise Bank Rate and causes UK economic growth, and increases in inflation, to be weaker than we currently anticipate.
- A resurgence of the **Eurozone sovereign debt crisis**, possibly **Italy**, due to its high level of government debt, low rate of economic growth and vulnerable banking system, and due to the election in March 2018 of a government which has made a lot of anti-austerity noise. The EU is again in the midst of a sharp disagreement with Italy over setting a budget within the limits of EU rules. The rating agencies have already downgraded Italian debt to one notch above junk level. If Italian debt were to fall below investment grade, many investors would be unable to hold Italian debt. Unsurprisingly, investors are becoming increasingly concerned by the actions of the Italian government and consequently, Italian bond yields have risen – at a time when the government faces having to refinance over €200bn of debt maturing in 2019. However, the biggest concern is the major holdings of Italian government debt held by Italian banks and insurers. Any downgrading of such debt would cause Italian bond prices to fall, causing losses on their portfolios, so reducing their capital and forcing them to sell bonds – which, in turn, would cause further falls in their prices etc. This is the so called ‘**doom loop**’. Due to the Italian government’s already high level of debt, it would not be able to afford to bail out the banking system. **Portugal** faces the same problem as its debt is also only one notch above junk level.
- Weak capitalisation of some **European banks**, particularly Italian banks.
- **German minority government.** In the German general election of September 2017, Angela Merkel’s CDU party was left in a vulnerable minority position dependent on the fractious support of the SPD party, as a result of the rise in popularity of the anti-immigration AfD party. Then in October 2018, the results of the Bavarian and Hesse state elections radically undermined the SPD party and showed a sharp fall in support for the CDU. As a result, the SPD had a major internal debate as to whether it could continue to support a coalition that is so damaging to its electoral popularity. After the result of the Hesse state election, Angela Merkel announced that she would not stand for re-election as CDU party leader at her party’s convention in December 2018. However, this makes little practical difference as she has continued as Chancellor, though more recently concerns have arisen over her health.
- **Other minority EU governments.** Sweden, Spain, Portugal, Netherlands and Belgium all have vulnerable minority governments dependent on coalitions which could prove fragile.
- **Italy, Austria, the Czech Republic and Hungary** now form a strongly anti-immigration bloc within the EU. There has also been rising anti-immigration sentiment in Germany and France.

- The increases in interest rates in the US during 2018, combined with an on-off potential trade war between the USA and China, sparked major volatility in equity markets during the final quarter of 2018 and into 2019. Some **emerging market countries** which have borrowed heavily in dollar denominated debt could be particularly exposed to investor flight from equities to safe havens, typically US treasuries, German bunds and UK gilts.
- There are concerns around the level of **US corporate debt** which has swollen massively during the period of low borrowing rates in order to finance mergers and acquisitions. This has resulted in the debt of many large corporations being downgraded to a BBB credit rating, close to junk status. Indeed, 48% of total investment grade corporate debt is rated at BBB. If such corporations fail to generate profits and cash flow to reduce their debt levels as expected, this could tip their debt into junk ratings which will increase their cost of financing and further negatively impact profits and cash flow.
- **Geopolitical risks**, for example in North Korea, but also in Europe and the Middle East, which could lead to increasing safe haven flows.

#### **Upside risks to current forecasts for UK gilt yields and PWLB rates**

- **Brexit** – if agreement was reached all round that removed all threats of economic and political disruption between the EU and the UK.
- **The Fed causing a sudden shock in financial markets** through misjudging the timing, direction and pace for the next movements in the Fed Funds Rate and in changes in levels of QE, which then leads to a fundamental reassessment by investors of the relative risks of holding bonds, as opposed to equities. This could lead to a major flight from bonds to equities and a sharp increase in bond yields in the US, which could then spill over into impacting bond yields around the world.
- The **Bank of England is too slow** in its pace and strength of increases in Bank Rate and, therefore, allows inflationary pressures to build up too strongly within the UK economy, which then necessitates a later rapid series of increases in Bank Rate faster than we currently expect.
- **UK inflation**, whether domestically generated or imported, returning to sustained significantly higher levels causing an increase in the inflation premium inherent to gilt yields.

## LINK ASSET SERVICES' FORECASTS

We do not currently think that the MPC would increase Bank Rate before any clearing of the fog on Brexit. We have pushed back our first increase in Bank Rate from February 2020 to August 2020. Our forecast for the end of the three year forecast period has been lowered from 1.75% to 1.50%

Financial markets, (short sterling rates), are now expecting a first increase in Bank Rate towards the end of 2023.

Forecasts for average investment earnings beyond the three year time horizon will be heavily dependent on economic and political developments.

### Gilt yields and PWLB rates

The general situation is for volatility in bond yields to endure as investor fears and confidence ebb and flow between favouring relatively more “risky” assets i.e. equities, or the “safe haven” of government bonds. The overall longer run trend is for gilt yields and PWLB rates to rise, albeit gently, although there are likely to also be periods of sharp volatility from time to time.

We have pointed out consistently that the Fed. Rate was likely to go up more quickly and more strongly than Bank Rate in the UK, but now it is likely to fall before the second stage of any UK monetary policy tightening.

Our forecasts are also predicated on an assumption that there is no break-up of the Eurozone or EU, (apart from the departure of the UK), within our forecasting time period, despite the major challenges that are looming up, and that there are no major ructions in international relations, especially between the US and China / North Korea and Iran, which have a major impact on international trade and world GDP growth. However, the current round of increases in tariff rates sparked by President Trump, both actual and threatened, are causing on-going concern around the potential impact on world growth and also on inflationary pressures.

We would, as always, remind clients of the view that we have expressed in our previous interest rate revision newsflashes of just how volatile PWLB rates and bond yields are at present. Our revised forecasts are based on the Certainty Rate (minus 20 bps) which has been accessible to most authorities since 1st November 2012.

**Borrowing advice:** since November 2018, PWLB rates have fallen significantly. As our long term forecast for Bank Rate is 2.25%, and all PWLB rates are very near to or below 2.25%, and well below 2.25% in periods up to 10 years, there is added value in most borrowing periods. Value, however, in the longer term rates could be negated or minimal, if Bank Rate does not climb to at least 2.25% over the medium term. Accordingly, clients will need to review and assess their risk appetite in terms of any underlying borrowing requirement they may have, and also project forward their position in respect of cash backed resources.

Any new borrowing should also take into account the continuing cost of carry, the difference between investment earnings and borrowing rates, especially as our forecasts indicate that

Bank Rate may rise to only 1.50% by March 2022. Please speak to your CRM to discuss opportunities available.

Our suggested **budgeted investment earnings rates for investments** up to about three months' duration in each financial year for the next six years are as follows:

	<b>Now</b>	<b>2019/20 report</b>
2019/20	0.75%	1.00%
2020/21	1.00%	1.50%
2021/22	1.50%	1.75%
2022/23	1.75%	1.75%
2023/24	2.00%	2.00%
2024/25	2.00%	2.50%
Later years	2.25%	

As there are so many variables at this time, caution must be exercised in respect of all interest rate forecasts. The general expectation for an eventual trend of gently rising gilt yields and PWLB rates is unchanged. Negative, (or positive), developments could significantly impact safe-haven flows of investor money into UK, US and German bonds and produce shorter term movements away from our central forecasts.

Our interest rate forecast for Bank Rate is in steps of 25 bps whereas PWLB forecasts have been rounded to the nearest 10 bps and are central forecasts within bands of + / - 25 bps.

Naturally, we continue to monitor events and will update our forecasts as and when appropriate.

	Bank Rate %		PWLB Borrowing Rates % (including 0.20% certainty rate adjustment)							
			5 year		10 year		25 year		50 year	
	Jul 19	Feb 19	Jul 19	Feb 19	Jul 19	Feb 19	Jul 19	Feb 19	Jul 19	Feb 19
Sep-19	0.75	1.00	1.50	2.00	1.80	2.40	2.40	2.90	2.30	2.70
Dec-19	0.75	1.00	1.60	2.10	1.90	2.50	2.50	3.00	2.40	2.80
Mar-20	0.75	1.00	1.70	2.20	2.00	2.60	2.60	3.10	2.50	2.90
Jun-20	0.75	1.25	1.80	2.30	2.10	2.60	2.70	3.20	2.60	3.00
Sep-20	1.00	1.25	1.90	2.30	2.20	2.70	2.80	3.20	2.70	3.00
Dec-20	1.00	1.25	2.00	2.40	2.30	2.80	2.90	3.30	2.80	3.10
Mar-21	1.25	1.50	2.10	2.50	2.40	2.90	3.00	3.40	2.90	3.20
Jun-21	1.25	1.50	2.10	2.50	2.50	2.90	3.00	3.40	2.90	3.20
Sep-21	1.50	1.75	2.20	2.60	2.60	3.00	3.10	3.50	3.00	3.30
Dec-21	1.50	1.75	2.30	2.60	2.60	3.00	3.20	3.50	3.10	3.30
Mar-22	1.50	2.00	2.40	2.70	2.70	3.00	3.30	3.60	3.20	3.40

The Feb 2019 forecasts were included in the Treasury Strategy 2019/20 to 2021/22.  
 Link Asset Services provided updated forecasts in July 2019.

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## Glossary of Terms

**Authorised Limit** – represents the limit beyond which borrowing is prohibited, and needs to be set and revised by the Council. It reflects the level of borrowing which, while not desired, could be afforded in the short term, but is not sustainable. It is the expected maximum borrowing need, with some headroom for unexpected movements.

**Bank Rate** – the rate at which the Bank of England offers loans to the wholesale banks, thereby controlling general interest rates in the economy.

**Capital expenditure** – material expenditure on capital assets, such as land and buildings, capitalised in accordance with regulations.

**Capital Financing Requirement (CFR)** – the level of capital expenditure to be financed from borrowing. This requirement will eventually be met by revenue resources through the Minimum Revenue Provision (MRP) mechanism.

**CIPFA** – Chartered Institute of Public Finance and Accountancy

**Counterparty** – the other party involved in a borrowing or investment transaction.

**Credit Rating** – a qualified assessment and formal evaluation of the credit history and capability of repaying obligations of an institution (bank or building society). It measures the probability of the borrower defaulting on its financial obligations, and its ability to repay these fully and on time. Ratings are prepared by Finch, Moody's and Standard & Poor's, and these are monitored by Link Asset Services.

**Gilt** - is a UK Government liability in sterling, issued by HM Treasury and listed on the London Stock exchange.

**Liquidity** – the ability of an asset to be converted into cash quickly and without any price discount. The more liquid an organisation is, the better able it is to meet short term financial obligations.

**LIBID** – London Interbank Bid Rate - the interest rate at which London banks ask to pay for borrowing Eurocurrencies from other banks. Unlike LIBOR, which is the rate at which banks lend money, LIBID is the rate at which banks ask to borrow. It is not set by anybody or organisation, but is calculated as the average of the interest rates at which London banks bid for borrowed Eurocurrency funds from other banks. It is also the interest rate London banks pay for deposits from other banks.

**LVNAV MMF** (Low Volatility Net Asset Value MMF) - a type of fund categorised as a Short Term MMF. Units in the fund are purchased or redeemed at a constant price, as long as the value of the assets in the fund do not deviate by more than 0.2% from par.

**MHCLG** – Ministry of Housing, Communities and Local Government (formerly DCLG)

**Minimum Revenue Provision (MRP)** - is a provision the council has set-aside from revenue to repay loans arising from capital expenditure financed by borrowing. MRP is required even when borrowing is internal rather than external.

**Monetary Policy Committee (MPC)** – independent body which determines the Bank Rate.

**Money Market Fund (MMF)** - mutual fund that invests only in highly liquid instruments such as cash, cash equivalent securities, and high credit rating debt-based securities with a short-term, maturity—less than 13 months. As a result, these funds offer high liquidity with a very low level of risk.

**Operational Boundary** – This indicator is based on the probable external debt during the course of the year; it is not a limit and actual borrowing could vary around this boundary for short times during the year. It should act as an early warning indicator to ensure the Authorised Limit is not breached.

**Prudential Code** – the Local Government Act 2003 requires the Council to ‘have due regard’ to the Prudential Code and to set Prudential Indicators for the next three years to ensure that the Council’s capital investment plans are affordable, prudent and sustainable. The Prudential Code is published by CIPFA.

**PWLB** – Public Works Loan Board. An institution managed by the Government to provide loans to public bodies at rates which reflect the rates at which the government is able to sell gilts.

**Revenue expenditure** – day to day items which may not be capitalised without a Government direction, including employees’ pay, transport and premises costs, supplies and services, and benefits.



Report of	Meeting	Date
Chief Executive	Governance Committee	24 <sup>th</sup> July 2019

## STATEMENT OF ACCOUNTS 2018/19

### PURPOSE OF REPORT

1. To present for approval, by the statutory deadline of 31 July 2019, the audited Statement of Accounts for 2018/19.

### RECOMMENDATION(S)

2. That the Committee should approve the audited Statement of Accounts for 2018/19 (Appendix A), subject to any amendments which in the opinion of the Chief Financial Officer (Section 151 Officer) are minor in nature, such minor amendments to be defined as non-material to the financial position of the authority. The Chief Financial Officer will exercise this delegation in consultation with the Chair of Governance Committee. In the event the Chief Financial Officer is of the opinion the amendments are material to the financial position of the authority, Governance Committee will be reconvened to approve the new Statement of Accounts.
3. That the Committee should authorise the Chief Executive and Chair of Governance Committee to sign the Letter of Representation (Appendix B).

### EXECUTIVE SUMMARY OF REPORT

4. Approval of the audited Statement of Accounts and publication by 31 July 2019 is a requirement of The Accounts and Audit Regulations 2015. The approved and signed Statement should be published on the Council's web site.
5. There have been no material changes to the Statement of Accounts from the draft version published on 31 May 2018 which affected the financial position of the Council.
6. The Appointed Auditor anticipates providing the Council with an unmodified audit report.
7. At the time of preparing this report, the Appointed Auditor has a limited number of further tests to complete. Should this additional work identify the need to make further changes to Statement of Accounts presented to this meeting, a procedure for agreeing the changes in time to meet the statutory publication deadline is required. The recommendation in paragraph 2 requests approval for such a procedure. This procedure would enable the Chief Financial Officer to exercise delegation in consultation with the Chair of Governance Committee in respect of making amendments to the statement which do not have a material effect on the financial position of the Council.

<b>Confidential report</b> Please bold as appropriate	Yes	<b>No</b>
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<b>Key Decision?</b> Please bold as appropriate	Yes	<b>No</b>
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**CORPORATE PRIORITIES**

8. This report relates to the following Strategic Objectives:

Involving residents in improving their local area and equality of access for all		A strong local economy	
Clean, safe and healthy homes and communities		An ambitious council that does more to meet the needs of residents and the local area	✓

**BACKGROUND**

9. The draft Statement of Accounts 2018/19 were signed by the Chief Finance Officer on 31 May 2018, and published on the Council’s website together with details of public inspection rights. The signed accounts were then presented to Grant Thornton external auditors for audit.
10. The audit of the accounts has not yet been completed in full. A few issues are still being considered, which means that there is a possibility that further changes to the Statement of Accounts might be required. However the Appointed Auditor’s Audit Findings Report is presented as a separate report on this agenda. This explains adjusted misstatements, unadjusted misstatements, and misclassification and disclosure changes in the current version of the Statement of Accounts.
11. The Accounts and Audit Regulations 2015 require that the statement should be approved by a meeting of members by 31 July 2018. The full statement for 2018/19 is attached as Appendix A.
12. Following consideration and approval by this Committee, the Chair should sign and date the Statement, which should also be re-certified by the Chief Financial Officer (Chief Executive), and be published by 31 July 2018. The Statement of Accounts will be published on the Chorley Council web site, [www.chorley.gov.uk](http://www.chorley.gov.uk).
13. The Chief Executive, as Chief Finance Officer, and the Chair of Governance Committee should also sign the Letter of Representation.
14. As the audit has not been completed in full, it is recommended that the Chief Financial Officer in consultation with the Chair of Governance Committee should approve non-material amendments to the Statement of Accounts before it is signed and dated. In the event the Chief Financial Officer is of the opinion the amendments are considered material to the financial position of the Council, Governance Committee will be reconvened to approve the new Statement of Accounts.

**CHANGES TO SIGNED STATEMENT OF ACCOUNTS PUBLISHED ON 31 MAY 2019**

15. Appendix B of the Audit Findings Report discussed the main adjustments made to the Statement of Accounts from the version published on 30 May 2019. These adjustments were all relatively small. In addition, Note 11 in the draft statement included changes to 2017/18 balances between some earmarked reserves. None of the changes were material, so the 2017/18 figures should not have been amended. The note has now been corrected.
16. One complication that arose during the two-month audit period is that of the McCloud ruling on pension age discrimination. In summary, the Court of Appeal has ruled that there was age discrimination in the judges and firefighters pension schemes where transitional protections were given to scheme members. The council requested that its pension fund actuary re-run the council's pension liability figures based on the possible affect this ruling may have.
17. The outcome of this work from the actuary was:
  - Additional past service liabilities as at 31 March 2019 of £797k
  - Additional projected service cost for the year commencing 1 April 2019 of £143kThese figures combined are £940k (or 0.6% of the total pension liability)
18. This figure falls below the council's materiality limit of £1.104m. It has been the decision of the CFO to not adjust the accounts for the effect of the McCloud ruling. The necessary changes to the pension fund will be made through the triennial pension review taking place during 2019.
19. A report recommending purchase of a major property asset is being presented to the Full Council meeting of 23 July 2019. Should Council approve purchase of the asset during 2019/20, it would be a material non-adjusting event after the reporting period, which should be disclosed in Note 7. A replacement for Note 7 will be prepared and will be circulated should the asset purchase be approved by Council.

**AUDIT FINDINGS**

20. The Audit Findings report by the Appointed Auditor (Grant Thornton) includes a draft audit opinion. This indicates that the Council will be provided with an unmodified audit report which is, in other words, an unqualified opinion. In addition, Grant Thornton are satisfied that the Authority put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2019.
21. At the time of preparing this report and the version of the Statement of Accounts it introduces, the auditors are still undertaking a limited amount of checks. Due to the audit not having been finalised, it is possible that they could identify further changes that would be required to core statements or supporting notes after Governance Committee has resolved to approve the Statement of Accounts. As a consequence, it is recommended that the Chief Financial Officer in consultation with the Chair of Governance Committee should agree any changes which have no material impact on the financial position of the Council before recertifying the Statement of Accounts. Should there be any changes which do have a material impact on the financial position of the Council, it would be necessary to reconvene Governance Committee to agree the changes.

**IMPLICATIONS OF REPORT**

22. No risk has been identified.

23. This report has implications in the following areas and the relevant Directors' comments are included:

Finance	✓	Customer Services	
Human Resources		Equality and Diversity	
Legal		Integrated Impact Assessment required?	
No significant implications in this area		Policy and Communications	

**COMMENTS OF THE STATUTORY FINANCE OFFICER**

24. All relevant comments are included within the report

**COMMENTS OF THE MONITORING OFFICER**

25. Approval and publication of the 2018/19 Statement of Accounts by 31 July 2019 is required in order to comply with The Accounts and Audit Regulations 2015.

GARY HALL  
CHIEF EXECUTIVE AND CHIEF FINANCE OFFICER

Report Author	Ext	Date
James Thomson/ Michael Jackson	5025/5490	22/07/19

# Statement of Accounts 2018/19

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Chorley Borough Council

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## Introduction to the Statement of Accounts

The Accounts and Audit Regulations 2015 require the Council to produce a Statement of Accounts for each financial year.

This Statement of Accounts has been prepared in accordance with the Code of Practice on Local Authority Accounting in the United Kingdom 2018/19 (The Code), which is based on International Financial reporting Standards.

The Statement of Accounts contains a number of sections and statements and these are explained below:

- Page 5      **The Independent Auditor's Report** – This gives the auditor's opinion of the financial statements and of the Council's arrangements for securing economy, efficiency and effectiveness in the use of its resources.
- Page 6      **Narrative Report of the Chief Finance Officer** - The purpose of the narrative report is to give the reader an understanding of the most significant matters reported in the accounting statements, as well as a review of the Council's financial performance and economy, efficiency and effectiveness in its use of resources over the financial year.
- Page 41     **Statement of Responsibilities for the Statement of Accounts** – This summarises the responsibilities of the Council and the Chief Finance Officer in relation to the Statement of Accounts.
- Page 114   **The Annual Governance Statement** – The Council is required to conduct an annual review of the effectiveness of its system of corporate governance and to publish a statement on the adequacy of the system with its annual accounts. This statement is referred to as the Annual Governance Statement (AGS). The AGS explains our governance arrangements, the review of the governance framework against the Local Code of Governance and future plans to improve and strengthen the governance environment.



**Independent auditor's report to the members of Chorley Borough Council**

**Report on the Audit of the Financial Statements**

# Narrative Report of the Chief Financial Officer

## Introduction

Throughout this document, Chorley Borough Council may be referred to as the Council or the Authority.

This Statement of Accounts presents the financial results of the Council's activities for the year ended 31 March 2019 and provides a picture of the Council's overall financial position as at that date. The accounts have been prepared in accordance with the Code of Practice on Local Authority Accounting in the United Kingdom 2018/19.

The purpose of the narrative report is to give the reader an understanding of the most significant matters reported in the accounting statements, as well as a review of the Council's financial performance and economy, efficiency and effectiveness in its use of resources over the financial year.

The narrative report is structured as follows:

- Key facts about Chorley Borough and Chorley Borough Council
- Chorley Council Corporate Strategy, its achievements, future projects, performance and risks
- The Structure of the Council
- Context for 2018/19 Accounts
- Financial Performance in 2018/19
- Looking ahead to the future including the challenges and opportunities facing Chorley Council



Gary Hall BA CPFA  
Chief Finance Officer

KEY FACTS ABOUT

**CHORLEY**



Chorley's population of **114,000** mostly live in **urban areas**



**Chorley** is a borough covering **205 square kilometres**



It is estimated that between **2014 and 2039** the population of **Chorley** will **increase by 18.1%**, the **highest** predicted growth rate **across Lancashire**



There are approximately **49,000 Households** within the borough of **Chorley**

**Chorley Borough** is located in **Lancashire** at the centre of the **North West region**, situated on the **M61, M6 and M65 motorways** with easy access to the **West Coast mainline** and **airports at Manchester and Liverpool**. These good links make it an attractive area to live in for people working across the North West, and this is reflected in its population, which is steadily expanding.



The Borough of **Chorley** benefits from a vibrant **voluntary and community sector network (VCFS)** that supports and enhances the community



The borough of **Chorley** consists of **20 wards** represented by **47** elected **councillors** and a **member of parliament**

**CHORLEY BOROUGH COUNCIL**



Chorley Borough **Council** consists of **four** directorates



There are **47 Councillors** within the Borough of Chorley



**Chorley** is a labour led council with an Administration Electorate of **85,575**

## CHORLEY BOROUGH COUNCIL CORPORATE STRATEGY

The overall aim of the Medium Term Financial Strategy (MTFS) is to identify resources to meet the objectives, targets and measures contained in the Corporate Strategy. The Corporate Strategy vision and our strands of focus are set out below:

**An ambitious council that does more to meet the needs of residents and the local area**

**Involving residents in improving their local area and equality of access for all**

**A strong local economy**

**Clean, safe and healthy homes and communities**



The delivery of the Corporate Strategy is supported through a series of key projects and service level projects contained within the business plans. In each case, the resources required to deliver the projects and plans were broadly developed through the business planning process, and resources identified during the budget planning process.

The Corporate Strategy for 2018/19 was approved by Council in November 2018. It includes 12 key projects, with a particular focus on delivering some of the large scale, ambitious schemes that will have a significant impact on local outcomes. Key performance measures for each service have been set so that targets remain challenging and reflective of the Council's ambitions.

The following pages outline the council's achievements in 2018/19 against the delivery of the Corporate Strategy and key performance indicators up to the end of 2018/19.



## An ambitious council that does more to meet the needs of residents and the local area

### OUR ACHIEVEMENTS

The Chorley Public Service Reform partnership continues to lead the way in developing effective and sustainable public services that will meet the needs of our residents in years to come. We have developed a new system to support referrals between services and continue to deliver the model for locality working through the integrated referral hub to support vulnerable adults, children and families which has delivered better outcomes for individuals, more effective use of resources and reduced duplication.

To date we have committed over £600k to protect vital services which were at risk due to county wide cuts, including local and rural bus routes to ensure residents have good access to transport links. We will also invest over £130k to continue modernising our streetscene services and this year we have delivered an improved grass cutting service with an average of 93% of all works completed on time and 84% of residents satisfied with their neighbourhood.

### LOOKING AHEAD

We will continue to transform the way in which the council delivers services to achieve a more operationally efficient organisation that can continue to meet the needs of residents through quality services and achieve savings of £400k by reviewing our major contracts and generate an additional £800k per year net income through investment within the borough.

We will continue to modernise our streetscene services and will continue to invest to deliver an improved street cleaning and litter bin emptying service.

In 2019/20 we will invest £70k in the Chorley Public Service Reform Partnership to develop new, innovative ways of working. We will continue to work closely with our partners to progress two workstreams around economic reform and leadership and development in public services and will conduct a review of our current partnership working arrangements to ensure that the organisation has a fit for purpose approach to achieve future priorities.





## Involving residents in improving their local area and equality of access for all

### OUR ACHIEVEMENTS

This year we have committed £200k towards making significant improvements to Astley Hall and park to further enhance both as visitor destinations and support the future ambitions, this has included, £80k to deliver improvements to Hallgate car park which has created 21 additional car parking spaces enabling more visitors and up to £100k to deliver the Garden of Reflection. This commemorated 100 years since the end of WW1 and provides a covered performance area with seating and a stone carving of a soldier.

This year we have invested £60k in digital inclusion to support residents in gaining the skills and resources to access more services online. This investment has enabled 1,057 residents to have accessed digital skills courses, delivered 60 digital courses including 15 new courses and created 7 new digital access points.

We have also invested £50k in the neighbourhood priority projects which were identified by the community to improve their local neighbourhoods.



### LOOKING AHEAD

We will invest to further improve digital inclusion across the borough through making significant improvements to our website to enable residents to access services easier online, delivering more targeted work around digitally excluded groups with basic online and digital skills training to specific and deliver more digital access points in rural areas.

We will continue to build stronger, healthier and more cohesive communities developing a framework to better understand the needs of our communities and inform how we better target our work in areas where it will have the most impact. This evidence base and framework will help support communities to help themselves and reduce pressure and demand on wider public services.

We will invest £1.750m in Astley Hall and Park to make vital conservation works, improve the visitor experience and deliver attractions to help make the Hall and Park more financially sustainable.





## A strong local economy

### OUR ACHIEVEMENTS .

This year we have invested £3.7m to deliver enabling works for the Market Walk Extension, town centre improvements such as the PALS memorial refurbishment and creating an additional 199 car parking spaces across the town centre. All of this work is in preparation for the final build phase to begin in 2019 which will deliver the extension to the Market Walk Shopping Centre which already generates £900k net income to the Council.

This year we have invested £38k in our project to help people overcome barriers to employment, this has enabled 125 residents to be referred the employability provision which provides intensive one to one support and training, 28 residents to source 8-week work experience placements and 33 residents to secure paid employment.

We have continued to provide multiple events for the residents of Chorley throughout the year and this year these events have brought over 65,000 visitors to the borough.



### LOOKING AHEAD

We will continue to contribute to the strong local economy through investing £8.1m in the delivery of the joint ERDF funded Digital Office Park. The Digital Office Park will provide state of the art digital office accommodation for digital businesses and will provide bespoke digital office space, start up accommodation and events and training space. This new development will put both Chorley and Lancashire at the centre of the expanding digital economy and will bring new businesses to the area providing vital high value jobs in the borough.

We will continue to drive forward economic growth in the borough through progressing a number of key sites that have been identified as suitable for employment and to attract inward investment. Chorley Council will invest over £700k to develop planning applications, master planning, ecological works and site preparations to enable these sites to be offered to businesses for development.



## Clean, safe and healthy homes and communities

### OUR ACHIEVEMENTS

This year we have invested £100k in the Chorley Youth Zone which opened in 2018/19. The Youth Zone provides the young people of Chorley with world class facilities which includes a football kick pitch, a sports hall, a climbing wall, performing arts suites, a radio suite, boxing ring, arts and crafts facilities, a fitness centre, film and multimedia suite, a restaurant, kitchen and health and wellbeing activities. This state-of-the-art facility, close to the town centre and local transport connections provides high quality, diversionary and wellbeing activities for Chorley's young people.

We have developed a housing strategy which sets out the council's ambitions to ensure that everyone living in the borough has access to the high quality accommodation that they need, to improve resident's lives and reduce demand on public services. It sets out an action plan of delivery for the next year against each of the priorities.



### LOOKING AHEAD

We will be investing over £3m in improvements to the playing pitches across the borough as part of the wider Parks, Open Space and Play Pitch Strategy. This will deliver improved drainage, new changing facilities, improved pathways and improved car parking facilities; all of which will create more accessible sports facilities and an increased sporting offer for the residents of Chorley. The majority of this will be funded through developer contributions.

Chorley Council has invested £10m, £4m grant funded, to build Primrose Gardens Retirement Village, which will deliver an exciting new living space in Chorley for those aged 55 and above. The build for this project is now complete, with occupation to begin in 2019/20. This flagship, highlight quality purpose built accommodation is ideally located and will provide a unique, modern space for residents so that they can live independently, integrate with the local community and gain access to support and care when needed.



**Performance of Corporate Strategy Key Measures – 2018/19**

The Corporate Strategy includes key measures to make it possible to monitor progress towards achieving priorities and long-term outcomes, the measures were selected to demonstrate the progress made in achieving the ambitions of the council. Performance at quarter four 2018/19 was good, with most indicators performing above target. Areas of underperformance are generally where more challenging targets have been set and where there are significant external influences.

★ **Performance is better than target**
● **Worse than target but within threshold**
▲ **Worse than target, outside threshold**

Indicator Name	Polarity	Target	Performance Quarter 4	Symbol
% service requests received online	Bigger is better	20%	<b>33.2%</b>	★
% customers dissatisfied with the service they have received from the council	Smaller is better	20%	<b>17.71%</b>	★
The number of visits to Council's leisure centres	Bigger is better	1 million	<b>1,194,833</b>	★
Number of community groups supported and developed by the Council	Bigger is better	75	<b>104</b>	★
Number of affordable homes delivered	Bigger is better	100	<b>202</b>	★
Number of long term empty properties in the borough	Smaller is better	170	<b>146</b>	★
Number of parks, open spaces and playing pitches improved linked to strategy delivery	Bigger is better	8	<b>29</b>	★
% of the population with NVQ level 3 and above	Bigger is better	57%	<b>59.9%</b>	★
Number of people who have successfully completed basic digital skills training	Bigger is better	300	<b>347</b>	★
Number of visits to Astley Hall Park and Complex	Bigger is better	40,000	<b>47,688</b>	★
Overall employment rate	Bigger is better	80%	<b>87.8%</b>	★
Number of projected jobs created through Chorley Council support or intervention	Bigger is better	120	<b>77</b>	▲
The % of 16-17 year olds who are not in education, employment or training (NEET)	Smaller is better	3%	<b>2.9%</b>	★
Growth in business rate base	Bigger is better	1%	<b>-0.13%</b>	▲
Median workplace earnings better than the North West average	Bigger is better	£529.60	<b>£488.60</b>	▲
Percentage increase in visitor numbers	Bigger is better	2%	<b>1.5%</b>	▲

For those performance indicators that are worse than the target performance, the following reasons and action plans will be proposed to Executive Cabinet in June 2019:

Performance Indicator		Target	Performance
	Number of projected jobs created through Chorley Council support or intervention	120	77
<b>Reason below target</b>	<p>The number of projected jobs created through Chorley Council’s support or intervention is lower than anticipated this quarter due to a range of factors.</p> <p>Firstly, the current offer for businesses which is the Choose Chorley grant (offered to businesses relocating into the borough and bringing 20+ sustainable jobs in 18 months) and the BIG grant (supporting existing business expansion and creating jobs through growth) to incentivise job creation has specific criteria for eligibility and the current criteria is restrictive and is limiting more businesses to access the grant funding.</p> <p>Secondly, there were vacancies within the Business Support team during quarters two and three, this reduction in resource impacted on the organisation of business events and the development of relationships with local businesses, both of which help to generate grant enquiries and ultimately create new jobs.</p>		
<b>Action required</b>	<p>Activity has focussed on reviewing the criteria for the grants, the Choose Chorley grant and the BIG grant which feed into this indicator, to ensure that the criteria enables the grants to be more accessible to the right types of businesses. This is currently being progressed and will be reported to Executive Cabinet for approval in June 2019.</p> <p>In addition to this, Strawberry Fields Digital Hub has completed in quarter four, and it is anticipated that the associated publicity and business space created will positively impact job creation in Chorley.</p>		

Performance Indicator		Target	Performance
	Growth in the business rate base	1%	-0.13%
<b>Reason below target</b>	<p>There is a constant variation in the NNDR rating list with new assessments, deletions and changes to rateable values contributing towards the gross rateable value. The deletion of 7 assessments, including The Pines, Oak House/Royal Oak and Calder House, has contributed to a reduction in the gross rateable value of -0.13% in 2018-19. These deleted properties had a total rateable value of £334,050. In addition 6 properties have benefitted from a significant reduction in their rateable value, with a collective decrease of £239,200. If these assessments had remained unaltered in the rating list the gross rateable value would have increased by 0.72% (£573,250) in 2018-19.</p>		
<b>Action required</b>	<p>The weekly list of validated planning application is closely monitored so that the VOA are promptly informed of new commercial assessments and potential increases in existing NNDR rateable values. Construction of several new commercial developments across the borough is well underway; these include the Market Walk Extension, Strawberry Fields Digital Hub and Lidl supermarket with completion expected, and therefore entry onto the NNDR rating list, in 2019-20. In addition the KFC Buckshaw Village was recently completed and is pending assessment by the VOA. This combination of new assessments is likely to result in a substantial increase in the gross rateable value in 2019-20.</p>		

Performance Indicator		Target	Performance
	Median workplace earnings better than the North West average	£529.60	£488.60
<b>Reason below target</b>	<p>Performance shows that Median Workplace Earnings in Chorley are lower than the regional and national average.</p> <p>The earnings by residence is £598.70, which is higher than the North West average of £529.60; this suggests that residents continue to commute outside the borough for higher paid jobs.</p>		
<b>Action required</b>	<p>The council continues to incentivise and support the creation of jobs in higher paid professional roles in line with the Chorley Skills Framework. We have also reinstated the Chorley Skills Board through the Chorley Public Service Reform Partnership to bring together key partners from higher education, training and private industry to ensure that Chorley has a skilled workforce able to respond to future growth.</p>		

Performance Indicator		Target	Performance
	Percentage increase in visitor numbers	2%	1.5%
<b>Reason below target</b>	<p>The visitor number figure is dependent on a number of factors so it is hard to identify a single cause. Attendance at events has hit targets so it is related to the wider appeal of the borough - performance does compare well with other districts in Lancashire.</p>		
<b>Action required</b>	<p>We are going to review our approach to tourism as part of the structural changes in the organisation and this will give us a new focus on what the borough's offer is and how we communicate that with people.</p>		

**Strategic Risk Register**

Risk management is a cornerstone of good corporate governance and the council has established a system of risk management which involves the creation of risk registers at a strategic level, service level and individual project levels.

Compiling the Strategic Risk Register requires a collective effort involving Senior Management Team (SMT) to identify the key strategic risk issues facing the Council. The Strategic risk register is stored and managed within the council's risk management system GRACE. SMT are responsible for identifying, owning monitoring and mitigating strategic risk including ensuring that any actions against each risk are completed. The GRACE system also contains separate risk registers for individual projects and service level risk registers owned and controlled by individual services managers and project managers.

Good progress has been made over the last year with regards to the GRACE system and its use. All strategic risks are now contained and embedded within the GRACE system and have been reviewed to inform this latest position. Directors continue to own individual risks with actions being owned by the most relevant Senior Officer within the organisation.

All strategic risks are stored on the GRACE system and are scored on a 4x4 matrix as outlined below:

**Score Key**

<b>Major</b>	4	4 Low	8 Medium	12 High	16 High
<b>Serious</b>	3	3 Low	6 Medium	9 Medium	12 High
<b>Minor</b>	2	2 Low	4 Low	6 Medium	8 Medium
<b>Insignificant</b>	1	1 Low	2 Low	3 Low	4 Low
		1	2	3	4

**Rarely** – there is a slight possibility that the event will occur

**Unlikely**- there is a possibility that the event will occur or there is a history of occasional occurrence within the authority

**Likely** – There is a strong possibility that the event will occur or there is history or regular occurrence within the Authority

**Highly likely** -there is little doubt that the event will occur

The below table outlines the highest scoring risks on the Strategic Risk Register for 2019:

Risk No.	Description of Risk	Current Inherent Risk	Current Residual Risk	Key actions 2019/20
R1	Failure to realise the value of large budget investments and achieve return on investments	16 (high)	9 (medium)	Delivery of major capital projects and other investment projects Development of Wholly Owned Company Ongoing monitoring of investment projects
R2	Failure to achieve desired outcomes through partnership working and deterioration in relationships	16 (high)	6 (medium)	Delivery of year 3 of the Public Service Reform Partnership Review the council's approach to partnership working Build relationships with senior management in partner organisations
R3	Budget cuts in key public and third sector partners having a negative impact on local level service delivery	16 (high)	8 (medium)	Delivery of the Transformation Board forward plan Refresh the Transformation Strategy Exploration of alternative sustainable delivery models for services currently supported
R4	Failure to optimise opportunities for new ways of working and alternative business models including options for income generation	16 (high)	8 (medium)	Delivery of the MTFs through the Transformation Board Explore alternative delivery models for development projects Develop an Income Generation Strategy Peer review to consider the council's business models
R5	Lack of resources to deliver the council's priorities due to public sector funding cuts (financial & staff capacity)	12 (high)	6 (medium)	Annual corporate planning and budget setting process Delivery of the Organisational Development Strategy Delivery of the Senior Management Restructure
R10	Failure to fully realise the benefits of new technology and related impact on driving organisational change	12 (high)	6 (medium)	Delivery of accommodation review Delivery of Streetscene Modernisation Strategy Continued roll out of Office 365 Delivery of tech talks
R15	Failure of existing shared service arrangements	12 (high)	6 (medium)	Review governance arrangements Review of Shared Assurance and Shared Financial Services

The majority of strategic risk levels have remained similar to 2018 as mitigating actions have ensured that the risks have been effectively managed and have therefore not escalated across the year.

The highest scoring risks outlined above continue to focus on delivering priorities, including new ways of working such as partnership working to address the future budget deficit. There are significant challenges facing the organisation within the coming year including budgetary pressures, the internal senior management review as well as external changes, coupled with an ever-increasing demand for our services. The council faces significant financial challenges as we move towards 2020/21 and preparing for these challenges means the council must continue to transform the way it delivers services to reduce costs and generate income.

The work of the Transformation Board continues to achieve the financial savings that need to be made towards a sustainable operational and financial position, informing the corporate planning process and is listed as a control/action measure against many of the highest scoring strategic risks.

The risk score for R1 **'failure to realise the value of large budget investments and achieve return on these investments'** continues to be the highest rated risk for the Council. This risk includes the council's investment into large scale commercial developments such as the Digital Office Park, Market Walk and investment into key employment sites. All of which are key corporate projects for the council. The need to see a return on this long-term investment to assist the Council in achieving a sustainable financial position in future years means this risk continues to be high.

Risk R2 refers to **failure to achieve desired outcomes through partnership working and deterioration in relationships**. Although established working relationships are in place (Public Service Reform and Integrated Community Wellbeing Service) this risk continues to be rated as one of the highest risks facing the council given the reliance we have on partnership working to support our sustainability in light of reductions in government funding and to work effectively in partnership with other organisations to provide joined up support for our most vulnerable residents. Work continues to deliver established partnerships already in place and strong control measures are listed to mitigate this risk over the coming months.

Risk R3, refers to **budget cuts in key public and third sector partners having a negative impact on local level service delivery**. Despite strong controls and mitigating actions in place internally to mitigate this risk, external financial pressures at both a national and county wide level still exist meaning that this risk level is maintained. We continue to work with partners to ensure that we are providing the most cost effective and sustainable solutions possible to sustain local services affected by county level budget cuts.

Risk R4, **'failure to optimise opportunities for new ways of working and alternative business models including options for income generation'** remains at a high-risk rating for 2019. The work of the Transformation Board continues to assess options for income generation and several actions are planned over 2019/20 to reduce this risk level including the development of an Income Generation Strategy, a peer review to consider the council's business models and a refresh of the Transformation Strategy to ensure it reflects the latest position and ambitions for the council.

This years' review sees a decrease in the residual risk score for risk R5, **'lack of resources to deliver the council's priorities due to public sector funding cuts'**. The residual risk score has reduced due to strong controls in place against this risk and the actions delivered against the transformation plan. The council has been successful in bridging the budget gap year-on-year through efficiencies and income generation. However there remains large and unquantifiable uncertainties in funding levels from 2020/21 onwards and as such the residual risk score is still rated as medium.

Risk R10 **'failure to realise the benefits of new technology and related impact on driving organisational change'** has been given the same rating in 2019 to reflect the scale and pace of change related to new technology, and the impact this has in terms of organisational capacity. There are several high-profile projects being delivered to achieve more efficient services through the use of better technology to support new ways of working, for example, the Streetscene Modernisation

Strategy and roll out of Office 365, both of which are being managed in line with the council's project management methodology.

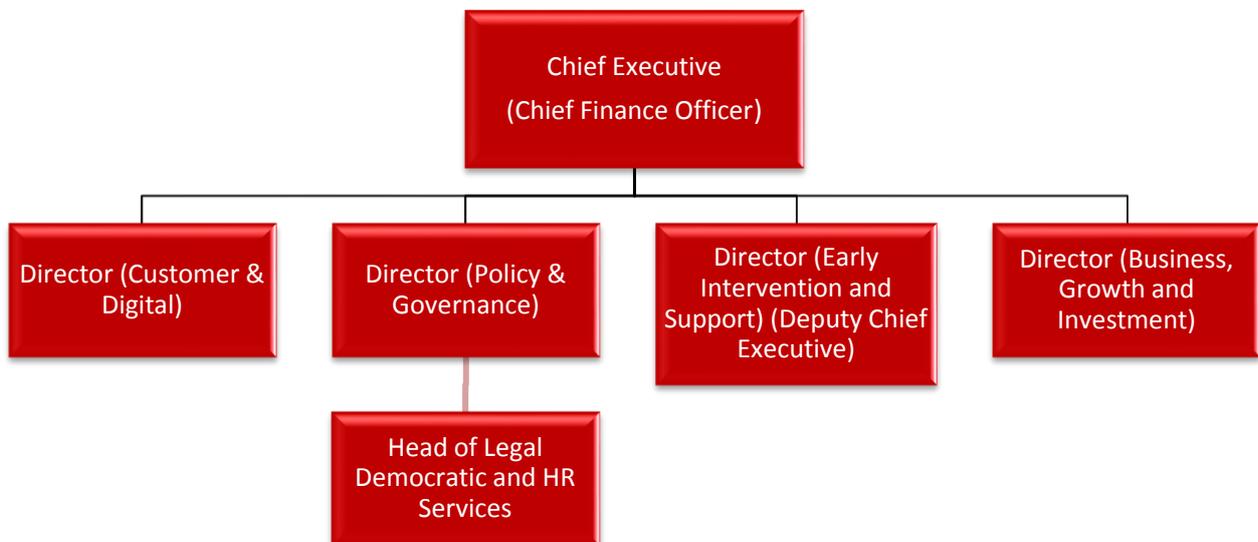
R15 '**Failure of shared services arrangements**' has been given a higher risk rating compared to 2018. This is to reflect the external factors that have slowed the progress in expanding the current shared service arrangements and the ongoing risk of any changes to current shared services arrangements given the reliance we have on these arrangements as a council and the savings they currently achieve.

**The Structure of the Council**

The council’s current senior management structure has been in place since May 2016. The changes have served the council well, with successful delivery of the council’s services and corporate strategy alongside its budgetary challenges in that time. Notable successes have included:

- Re-letting of the waste contract, with savings of £1million achieved
- Maintaining higher levels of resident satisfaction than other benchmarked councils
- Leading public service reform, with the establishment of the integrated community wellbeing service and innovative approaches such as PIVOT
- Progressing Primrose Gardens, Strawberry Fields and Market Walk into the build phases.

The Current Senior Management Team



Senior Management Team

The senior management team consist of the Chief Executive (with Chief Finance Officer responsibilities), the four Directors and the Head of Legal Democratic and HR Services (monitoring officer). The senior management team meets every fortnight and is responsible for developing, identifying resources, delivering and reviewing the delivery of the Council’s corporate priorities.

The council continues to transform meaning that it is necessary to review the council’s management structure to ensure that it remains fit for purpose and focussed on delivering the council’s priorities, including its commitment to continue investing in income generating assets. A report was taken to Full Council on 26 February 2019 that outlined numerous changes to senior positions within the council. These proposals are still under consultation and not yet approved and will therefore not be described in detail as part of the 2018/19 statement of accounts.

### The Transformation Board

The council continues to work towards delivering the transformation strategy with the Transformation Board overseeing its delivery. The purpose of the Transformation Board is to:

- Monitor project progress and issues
- Ensure proposals meet with the overall objectives of the Transformation Strategy and anticipated savings
- Consider dependencies between projects to make sure that activity is coordinated (particularly regarding consultation/service reviews) and monitor overall demands on capacity

There are currently over 10 separate projects that the transformation board monitors and supports in order to deliver the transformation strategy.

### Working with Partners

The Transformation Strategy has facilitated a greater integration of public services. In partnership with Lancashire Care NHS Foundation Trust (LCFT) the council has implemented an Integrated Community Wellbeing Service. The innovative service integrates functions that promote the wider determinants of health and community resilience. By so doing, it is anticipated it will generate opportunities for savings across public services over the long term. Lancashire Care Foundation and Chorley Council have joined together to create an Integrated Community Wellbeing Service. The new service has included work arrangements around supporting people into employment. A review of services and interventions available around employability has identified a new pathway across public services to support our residents.

The council has completed the construction of the Primrose Gardens extra care facility in partnership with Homes and England and LCC. The council will manage the brand new 65 bedroom retirement village with LCC providing the care to its residents. There has been huge interest in Primrose Gardens and occupation of the facility will begin in 2019/20.

The council will continue to invest in the Chorley Public Service Reform Partnership to develop new, innovative ways of working. We will continue to work closely with our partners to progress two workstreams around economic reform and leadership and development in public services and will conduct a review of our current partnership working arrangements to ensure that the organisation has a fit for purpose approach to achieve future priorities.

The council will also expand its work with private sector businesses. The new council owned Strawberry Fields Digital Hub will open in 2019 and will provide state of the art digital office accommodation and business support for digital businesses. This new development will put both Chorley and Lancashire at the centre of the expanding digital economy and will bring new businesses to the area providing vital high value jobs in the borough.

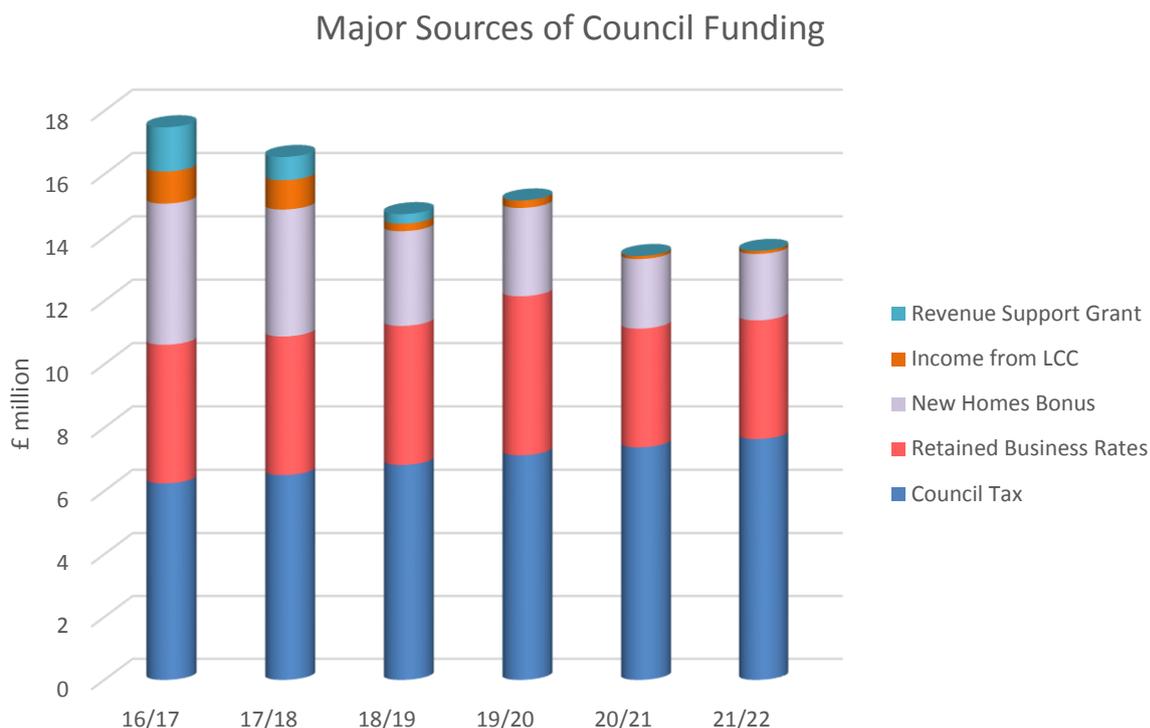
As well as this the council continues to offer business grants and loans to businesses operating within Chorley Borough. The council continues to have an ambitious programme to deliver over the next three years including bringing forward council owned employment and housing sites within the borough. This could lead to further partnership working including joint arrangements with developers to regenerate the borough.

**Context for the 2018/19 Accounts**

Despite the announcement from the Government that austerity has ended, it is expected the council could experience significant reductions in funding over the next three years as well as managing inflationary budget pressures. The previous spending review allocated funds on the assumption that councils would increase council tax close to the referendum limit and, due to the large uncertainty regarding Government reforms for 2020/21, there is a risk the Government will continue to take this approach. The Government has indicated that the future needs assessment formula will include a ‘resource equalisation’ component. This is a reduction in funding to reflect each authority’s assumed ability to fund services using locally generated income, mostly council tax.

There is great uncertainty in funding levels in 2020/21 onwards due to the expected implementation of the 75% business rates retention system and fair funding review. It is assumed that over the medium term the council will experience a reduction in funding of over £1.3m. This may be a reduction in retained business rates, if more income is allocated to upper tier authorities, or it could be the potential elimination of New Homes Bonus if it is brought into the calculation of council’s baseline funding level. At this point in time it is not possible to forecast exactly how the reforms will impact the council

Chorley Council has experienced and may continue to experience in the coming three years, large reductions in its major funding sources. The reductions in the largest funding sources are outlined in the chart below.



The 2018/19 Medium Term Financial Strategy (MTFS) identified a projected net budget gap over the period 2018/19 to 2020/21 of £2.213m and continued to plan a route by which the budget deficit would be bridged in order to deliver the Council’s Corporate Strategy priorities.

As a result of these uncertainties and for the council to manage the changes required over the medium term, the council will maintain general balances at £4m as well as increasing earmarked reserves to manage the potential short-term impact Brexit and Business Rates Reform may have on

the council, the local economy and residents of Chorley. See the Movement in Reserves Statement on page 44 for more details.

This Council continues to be part of the Lancashire Business Rates Pool which began on 1 April 2016. The Lancashire Business Rates Pool, which includes most but not all of the local authorities in Lancashire, has been designated by the Secretary of State for Communities and Local Government and the retained levy in Lancashire has been distributed as follows:

- Lancashire County Council is paid 10% of the overall retained levy;
- Each district within the pool retains 90% of their levy.

With regard to this council, the retained levy would be £798,029, hence under pooling we have benefited from extra income of £718,226. Lancashire County Council has received the remaining 10% of retained levy. See note 14a for more details.

### Financial Performance in 2018/19

Despite the financial challenges outlined above, the financial standing of the council is robust, with sound budget setting and monitoring practices. The council's 2018/19 Revenue Budget, Capital Programme, MTFs and Treasury Management Strategy were approved at Special Council on 27 February 2018. Thereafter, budget monitoring reports were submitted at quarterly intervals to the Executive Cabinet. The reports are available on the council's website.

In 2018/19, the Council continued its successful track record in achieving budgetary savings whilst also maintaining services. The 2018/19 budget setting process also identified a further £0.345m of efficiencies that have been delivered. The following year-on-year budget efficiency savings and additional income have been achieved over the past five years:

	14/15 £m	15/16 £m	16/17 £m	17/18 £m	18/19 £m	TOTAL £m
Productivity Savings	0.367	0.017	0.314	0.207	0.220	<b>1.125</b>
Review of Contracts	0.035	0.200	-	0.059	-	<b>0.294</b>
Review of Income Streams (including Market Walk)	0.442	0.446	-	0.050	0.050	<b>0.988</b>
Review of Base Budget	0.094	0.045	0.128	0.100	0.075	<b>0.442</b>
Lancashire Business Rates Pooling	-	-	0.725	-	-	<b>0.725</b>
<b>SAVINGS AND ADDITIONAL INCOME</b>	<b>0.938</b>	<b>0.708</b>	<b>1.167</b>	<b>0.416</b>	<b>0.345</b>	<b>3.574</b>

### Council Spending in 2018/19

The Council's provisional revenue outturn for 2018/19 forecasts a £288k underspend against a provisional final budget of £17.840m. A proposal will be made to Executive Cabinet in June 2019 to transfer:

- £71k to fund a graduate trainee from the National Graduate Development Programme (NGDP) in 2019/20 and 2020/21.
- £55k to fund clerk of works and additional design work for new tenants at Market Walk Extension
- £162k underspend to the Change Management Reserve to fund the unavoidable expenditure relating to the implementation of the council's Transformation Strategy.

The surplus £288k underspend is analysed below.

	Provisional Adjusted (Income)/ Expenditure Budget	Outturn	Underspend/ (Overspend)
<u>Expenditure</u>	£'000s	£'000s	£'000s
Customer & Digital	6,559	6,498	61
Policy & Governance	4,574	4,541	33
Early Intervention	2,264	2,117	146
Business, Development & Growth	1,216	1,314	(98)
<b>Directorate Total</b>	<b>14,613</b>	<b>14,471</b>	<b>142</b>
Pension Account & Deficit Recovery	1,060	1,056	4
Benefit Payments	(141)	(175)	34
Market Walk Shopping Centre	(1,666)	(1,686)	20
Investment Properties	(67)	(67)	(0)
LCC Transition Fund	171	130	41
Primrose Gardens	46	46	(0)
Net Financing Transactions & Contributions to Capital	3,153	3,054	99
Parish Precepts	671	671	(0)
<b>Total Expenditure</b>	<b>17,840</b>	<b>17,500</b>	<b>340</b>
<u>Financing</u>			
Council Tax	(7,554)	(7,554)	(0)
Business Rates	(4,238)	(4,265)	27
Government Grants	(416)	(466)	51
CIL Admin	(130)	(150)	20
New Homes Bonus	(2,989)	(2,989)	0
Use of Earmarked Reserve	(2,513)	(2,513)	(0)
Slippage to 2019/20	0	150	(150)
<b>Total Financing</b>	<b>(17,840)</b>	<b>(17,788)</b>	<b>(52)</b>
<b>Total Variance Reported in Budget Monitoring Report</b>	<b>0</b>	<b>(288)</b>	<b>288</b>

### Analysis of Outturn

The Directorate underspends were mostly driven by temporary staffing vacancies in particular in areas such as ICT, Streetscene and Customer Services. The budget overspend in the Business, Development and Growth directorate relates to £114k of staff costs charged to existing budgets rather than drawing down from the income generation reserve.

Underspend against non-staffing expenditure budgets were also experienced during 2018/19. Areas of underspend included expenditure on external contractors with Streetscene services and an underspend on the current waste management contract fee.

The council has generated additional income over the budgeted level in 2018/19. Income was higher than budgeted for in bereavement services and the council utilised more of the disabled facilities grant and community infrastructure levy funding to cover administrative costs. The council however experienced a shortfall in planning income due to a reduction in the number of applications received in 2018/19. The budget in 2019/20 onwards has been reduced by £100k to take account of this fall in income. The council received unbudgeted grant income such as the Flexible Homelessness Support Grant, Business Rates Levy Account Surplus Grant and DWP Housing Benefit Funding.

The council has received additional net income of around £115k in 2018/19, with £82k taken as in-year savings in 2018, in relation to Housing Benefit payments. By reducing the level of benefit overpayments due to fraud and claimant error, the council is able to increase the amount of eligible benefits subsidy it receives and also reduce the burden of outstanding debts and the level of bad debts provision.

Requests to carry forward underspends into 2019/20 are approved by the Chief Finance Officer. In 2018/19 there has been £150k of approved 'slippage' requests. This includes funds identified to provide a two-year graduate trainee placement in procurement to begin succession planning and to provide more support to South Ribble and Chorley Council's transformation projects.

The deficit on General Fund balance noted in the Expenditure and Funding Analysis (page 42) is £2,247k. This relates to the 2018/19 in-year underspend as well as other movements in reserves described below.

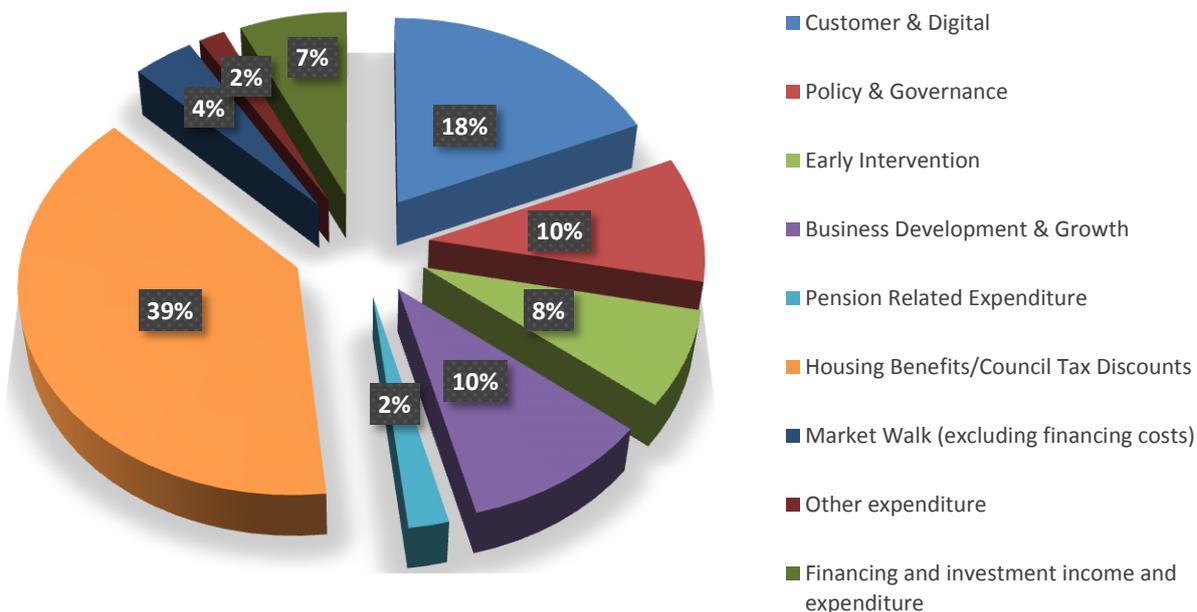
	General Balances	Earmarked Reserves	Total General Fund Balance
	£'000s	£'000s	£'000s
<b>Balance at 31 March 2018</b>	<b>(4,000)</b>	<b>(8,322)</b>	<b>(12,322)</b>
<u>Transfers (to) from General Balances</u>			
Budgeted and in-year contributions to General Balances	0	0	0
<u>Transfers (to) from Earmarked Reserves</u>			
Rephasing of expenditure (slippage)	0	(150)	(150)
Change Management Reserves	0	(162)	(162)
Transfer for National Graduate Dev. Programme	0	(71)	(71)
Transfer for Market Walk Extension Professional Fees	0	(55)	(55)
<b>Transfer of Revenue Budget Underspend</b>	<b>0</b>	<b>(438)</b>	<b>(438)</b>
Net use of Business Rate Retention Reserve		171	171
Net Use of Earmarked Reserves to Fund Investment Projects and Re-Profiled Expenditure		702	702
Net Use Earmarked Reserves to Finance Capital Expenditure		1,428	1,428
Transfers to Other Earmarked Reserves		384	384
<b>Net Transfer to Earmarked Reserves</b>	<b>0</b>	<b>2,247</b>	<b>2,247</b>
<b>(Surplus) on General Fund Balance in Year</b>	<b>0</b>	<b>2,247</b>	<b>2,247</b>
Net Movement in Year	0	2,247	2,247
<b>Balance at 31 March 2019</b>	<b>(4,000)</b>	<b>(6,075)</b>	<b>(10,075)</b>

The net transfer to earmarked reserves is the net result of drawing down and (adding to) earmarked reserves. The net transfer to earmarked reserves is outlined further in note 11.

The outturn for the council, outlined in the Expenditure and Funding Analysis note 1 on page 42, identifies balances of £10.075m. Of these balances £6.075m are specific earmarked reserves that will be used to deliver Corporate Strategy priorities and the remaining £4.000m is set aside to enable the council to manage the peaks and troughs in expenditure and income it may experience throughout the MTFS period.

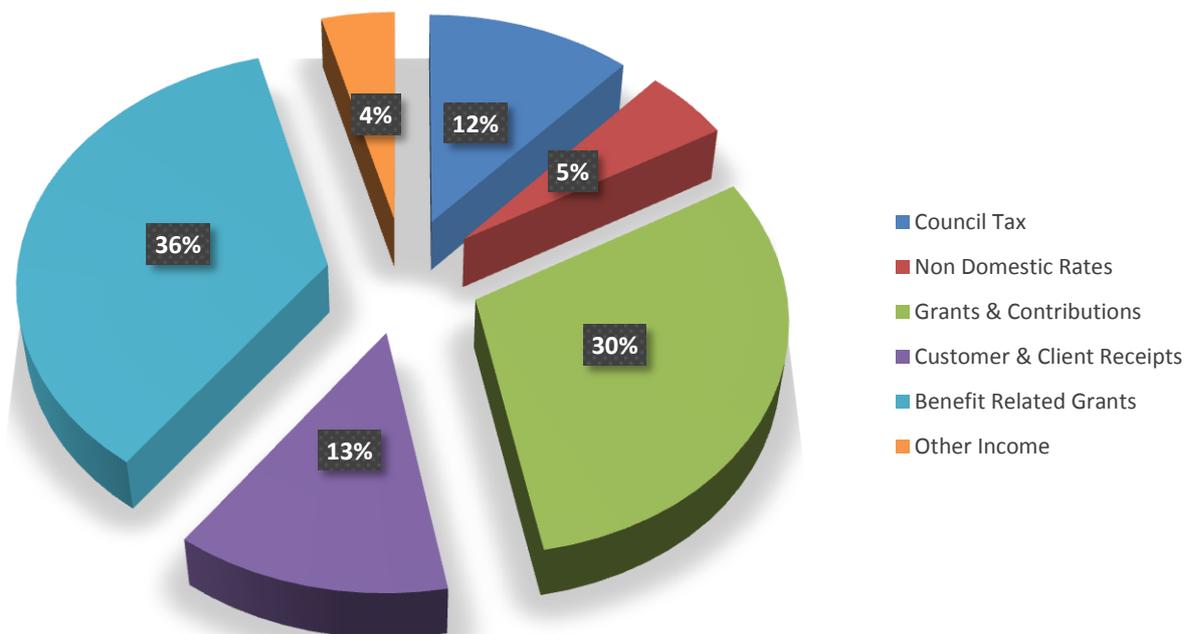
**Where the Council's budget was spent**

The gross expenditure for the Council is detailed in the Comprehensive Income and Expenditure Statement (page 43). In 2018/19 it consisted of:



**How the Council's spend was funded**

The gross income for the Council is disclosed in the Comprehensive Income and Expenditure Statement. It consisted of:



**Capital Programme 2018/19 to 2021/22**

The Council has an ambitious four year capital programme totalling £53m for 2018/19 to 2021/22 that was approved at Full Council on 26 February 2019. The investment will complete a range of projects that will deliver the Council's Corporate Strategy priorities. The capital programme includes several schemes that will generate revenue to meet the annual cost of borrowing required to complete the project. These include the three major capital schemes:

- the completion of the **Market Walk Extension** project that will include a cinema and changes to the town centre car parking. The new site will create employment opportunities as well as complementing the current shopping provision in Chorley town centre. As the council is the landlord of Market Walk Shopping Centre, the new development will generate new income streams for the Council;
- the new **Strawberry Fields Digital Office Park** that will provide a 5,000 m<sup>2</sup> bespoke digital office and start up accommodation with car parking. The centre will provide a hub for digital businesses and other high growth sector businesses. The project has been part-financed through ERDF grant funding as a result of the council's successful grant bid in 2016/17. The build is nearing completion with tenants expected to begin occupying the site in August 2019;
- a £10m budget for the construction of the **Primrose Gardens Retirement Living** extra care facility. In conjunction with a £3m HCA grant and a £1m LCC contribution, this project has created a 65 room facility that will house tenants with low level care needs and meet the future demand for such services that has been identified in the Chorley area.

The council received notification in December 2018 that its bid for £2.4m of grant funding from the Heritage Lottery Fund towards an ambitious £2.8m redevelopment of **Astley Hall** has been unsuccessful. Despite this the council will continue its ambition to transform the visitor experience at Astley Hall and the surrounding park and to continue the conservation of the Astley Hall building and its culturally significant contents. An additional £1.750m capital budget has been approved to develop Astley and the surrounding park.

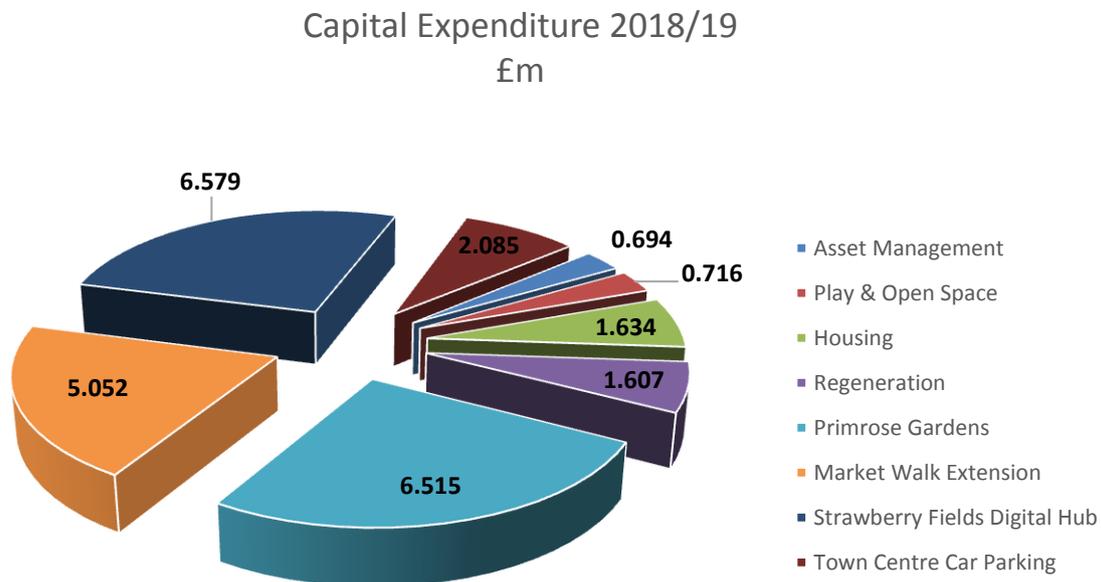
The council will invest £1.3m to vastly enhance the customer experience at **Union Street** by creating a centralised customer service point and creating a self-service area. The ambition of the council is to create a mezzanine overlooking the **Lancastrian** to provide modern break out space to enhance the functionality of the Lancastrian and its commercial appeal. This investment will allow the council to rationalise its offices to improve efficiency and generate savings

The council's current capital programme includes £2.7m to fund a new sports facility at **West Way playing fields** that will create high quality changing facilities, a fenced Artificial Grass Pitch (AGP) and pitch drainage improvements. It will also create enhanced events car parking and works to pathways that will provide a link between Astley Park and the new playing fields

The council will continue to utilise contributions from developers to invest in **play, pitches and open spaces**. A total budget of over £2m included over £600k investment in Coronation and Harpers Lane Recreation Ground carried out in 2018/19 as well as over £1m further budgeted investment in other sites across the borough.

**Capital 2018/19**

The chart below outlines the key areas the Council invested its capital expenditure in 2018/19



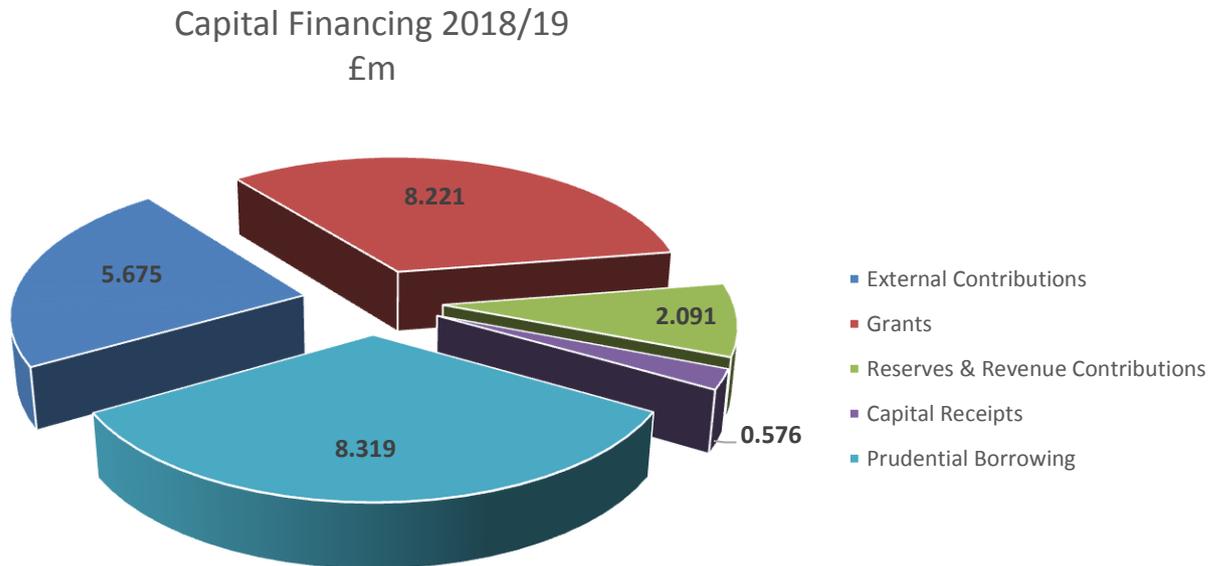
The majority of capital investment in 2018/19 related to the three major capital projects the council is undertaking:

- £6.5m of capital expenditure related to the Strawberry Fields Digital Office Park that was funded through £3.079m of ERDF grant funding and £3.5m of borrowing that will be repaid through the income generated by the new office space. The site is forecast to be fully operational by August 2019;
- £5m was spent on the Market Walk Extension project that commenced the main build in October 2018 and is due to complete before Christmas 2019. In addition, the council has invested over £2m in providing additional parking spaces including new decked parking on Friday Street;
- The Primrose Gardens Retirement project reached practical completion in March 2019. The retirement village will become occupied in 2019/20 and is in huge demand. The expenditure in 2018/19 was part funded through £3m of grants from Home England and LCC, the remaining costs will be met through borrowing however this borrowing will be replaced by commuted sums from developers in the coming years.

As well as Primrose Gardens the council has invested £926k of Disabled Facilities Grants to provide adaptations to the homes of Chorley residents who have disabilities. The council also purchased five houses in the borough to provide affordable housing.

The council continues to regenerate the borough in other ways including the investment in the restoration of Bank Hall, continued investment in Astley Hall and the surrounding park and car park and works to the town centre.

The Council has invested in a number of key areas including housing, economic regeneration and play and open space. The Council has financed this expenditure through several different sources outlined in the charts below.



**£8.2m External Grants Utilised in 2018/19**

The Council has been successful in securing £3.2m from Homes England towards the costs of improvements to the Primrose Gardens development and utilised the final £3m in 2018/19. A further £3.75m was secured from the remaining tranche of European Regional Development funding to part fund the Strawberry Fields Digital Office

Park, with a draw down of £3m being made in 2018/19. The council also received £2.2m from the Heritage Lottery Fund towards the renovation of Bank Hall in Bretherton with £1.1m utilised in 2018/19. Finally, the council utilised £857k of Disabled Facilities Grant income to adapt the homes of Chorley residents who have disabilities.

The council has utilised over £5.16m of s106 contributions received from developers to fund improvements in various projects. The majority was committed to the extension of Market Walk Shopping Centre and additional parking within the borough. The council continues to utilise s106 to improve its play and open spaces. In 2018/19 £347k was committed to these schemes including c.£300k investment in Coronation Recreation Ground.

**£5.6m External Contributions in 2018/19**

**£8.3m Prudential Borrowing in 2018/19**

The Council used £8.319m of prudential borrowing to fund capital expenditure in 2018/19 (see note 36). The majority of this funding is temporary and will be replaced by other sources. £3.4m borrowing to fund works to the Strawberry Fields Digital Office Park and £600k borrowing to fund the

Market Walk Extension project will be funded through future income streams generated from these sites. £3.5m of prudential borrowing towards works to Primrose Garden Retirement Village are to be funded through developer contributions that have been identified but are not yet payable to the council.

### **Reserves and Balances Summary**

The Council's 2016/17 Medium Term Financial Strategy specified that general balances should be increased to £4.0m by 2018/19. At the end of 2017/18 general balances were increased to this target level, one year earlier than first budgeted.

Total earmarked reserves for specific purposes were £8.322m as at 31 March 2018 (Note 11). Some of the changes in year are as follows:

- There are a number of **directorate initiatives** which span more than one financial year or for which funds have been budgeted but not yet started. These reserves will ensure that such initiatives can be completed. The majority of these initiatives relate to ICT Services and include funding for specific ICT projects. These reserves also include revenue reserves to support the operation of Primrose Gardens Retirement Village and the Strawberry Fields Digital Office Park.
- In 2018/19 £1.8m was utilised from reserves to fund the **capital programme**. The majority, £1.5m, was used to part-fund elements of the Market Walk Extension programme including the additional car parking at Friday Street, Park Road and Arley Street. £80k of reserves were used to part-fund the works to Coronation and Harpers Recreation Grounds and £170k was utilised to fund the investment in ICT projects. Despite this investment there remains £1.5m in reserves to fund future capital investment including play and open space, additional CCTV and improvements to the council's cemeteries.
- In 2018/19 £260k from in-year underspends to supplement the **change management reserve**. £162k was utilised in year to finance the costs of staffing restructures in 2018/19 leaving £315k to be utilised in future years to fund any unavoidable expenditure relating to implementing the Council's Transformation Strategy.
- Chorley Council continues to build up reserves to manage potential short-term contractions in the **local economy** as well as short-term reductions in **retained business rates income**. This is especially important given the economic uncertainty caused by Brexit and the future uncertainty in retained business rates that has resulted from the proposed changes to the business rates system in 2020/21. The council has set aside a total of £640k at the end of 2018/19 to manage the impact of reductions in business rates and the 2019/20 budget approved an additional £300k to support local businesses and corporate priorities through whatever outcome of the Brexit process.

The combination of these factors and other movements to and from earmarked reserves has resulted in General Fund earmarked reserves of £6.075m, as at 31 March 2019 (see MIRS page 44 and Note 11). Coupled with general balances of £4m, the closing General Fund Balance at 31 March 2019 as outlined in the Expenditure and Funding Analysis note 1 on page 42 is £10.075m.

### ***Treasury Management***

The treasury operations of the Council are conducted in accordance with its annual Treasury Strategy. This document identifies the investment and borrowing policies of the Council over a three-year period, specifying, amongst other things, the criteria for investment counterparties, the maximum duration, and amount, of investments, and the need for borrowings.

The key facts for 2018/19 were:

- Investments were short-term, in call accounts and money market funds. The maximum period permitted by the Council's Treasury Strategy for term deposits in banks and building societies is one year.
- Cash and cash equivalents net of bank overdraft (note 21) were £2.917m at year-end (2017/18 - £1.356m), having peaked at £15.2m during the year (£12.7m 2017/18). The average invested of £6.839m per day was higher than the average for 2017/18 of £4.858m. The Council repaid £1.261m borrowing (£8.285m 2017/18) and took £6.000m new long-term loans to finance capital investment (2017/18 - £5.000m).
- The return on investments was 0.61%, an increase compared to the 0.26% achieved in 2017/18. Cash balances were invested short-term at lower interest rates than could have been achieved with term deposits, but use of internal cash for capital financing helped to minimise the use of external borrowing which achieved savings in net interest.
- External borrowing increased from £15.403m to £21.164m. Long-term borrowing of £1.261m was repaid, and new long term borrowing of £6.000m and temporary borrowing of £1.000m was taken out.
- In determining Council Tax charges authorities have to make a specific provision for the financing of capital expenditure. The outstanding amount for which provision has to be made is known as the Capital Financing Requirement (CFR). During the year the CFR increased from £41.5m to £49.2m, reflecting the use of Prudential Borrowing to finance capital expenditure less statutory and voluntary provision for debt repayment, including use of capital receipts. (Note 36 providing more detail). This increase will generate a charge to Council Tax (known as Minimum Revenue Provision – MRP) in future years.
- Note 19 Financial Instruments presents details of treasury operations, and the management of risk.

### ***Pension Fund Liability***

The deficit position of the Pension Fund has increase by £0.8m, from £45.2m to £46.0m being the net pension liabilities; this is outlined in note 26d on page 89. This reflects the value of pension liabilities which the Council is required to pay in the future when they fall due, offset by the value of assets invested in the pension fund. In addition, the Council's pension fund has to be revalued every three years to set future contributions into the fund. The last valuation was in 2016 which reported a funding level of 90%. The Council has a deficit recovery plan in place to reach a full 100% funding level by making additional Deficit Recovery Contributions into the fund over the next 16 years following the 2016 valuation.

This deficit figure is very much an estimate, being the actuary's assessment of the present value of the liabilities to be met by the fund over a long period less its current assets and anticipated future receipts. Note 38 presents detailed information about the Defined Benefit Pension Scheme.

**Council Tax Base**

The revision to the 2018/19 Tax Base, resulting in an increase of 680.54 to the number of Band D equivalent properties (as shown in the Table below), produced a net increase in Council Tax income of circa. £0.123m.

	2016/17	2017/18	2018/19
Number of Band D equivalent dwellings	35,181.72	35,933.64	36,614.18
Change from previous year	677.50	751.92	680.54

**Income Recovery**

Note 20 analyses debtors by type, and note 19 further analyses the risk of default by debtors.

The following table shows the in-year collection rates of local taxes that indicates a steady improvement in collection rates for both council tax and business rates.

	2016/17	2017/18	2018/19
<b>Council Tax</b>	98.0%	98.2%	98.1%
<b>Business Rates</b>	97.9%	98.9%	98.4%

**Collection Fund**

Payments out of the Collection Fund for in-year Council Tax from 2016/17 to 2018/19 are set out below showing the funding for each Precepting Body. Further detail is available within the Collection Fund Statement on page 110 of this document.

	<b>2016/17 £000</b>	<b>2017/18 £000</b>	<b>2018/19 £000</b>
Lancashire County Council	41,334	43,901	47,413
Chorley Council	6,775	7,146	7,495
Police and Crime Commissioner	5,707	5,945	6,497
Lancashire Fire and Rescue	2,304	2,354	2,470
<b>Total</b>	<b>56,120</b>	<b>59,346</b>	<b>63,875</b>

Payments out of the collection fund for in-year business rates from 2016/17 to 2018/19 are set out below showing the funding for each precepting body prior to the top up and tariff adjustments being applied. As the collecting body, the tariff reduces Chorley Council's receipt and top ups increase the amount received by Lancashire County Council and Lancashire Fire and Rescue. Further detail is available within the Collection Fund Statement on page 110 of this document.

	<b>2016/17 £000</b>	<b>2017/18 £000</b>	<b>2018/19 £000</b>
Central Government	14,550	12,411	12,283
Lancashire County Council (before Top-Up grant received)	2,619	2,234	2,211
Chorley Council (prior to Tariff deduction)	11,640	9,929	9,826
Police and Crime Commissioner (not part of BRR regime)	n/a	n/a	n/a
Lancashire Fire and Rescue (before Top-Up grant received)	291	248	246
<b>Total</b>	<b>29,100</b>	<b>24,822</b>	<b>24,566</b>

## Looking Ahead – Future Challenges, Opportunities and Financial Outlook

### Challenges

- **A growing and aging population**– it is estimated that between 2014 and 2039 the population of Chorley will increase by 18.1%, the highest predicted growth rate by far across Lancashire. Over the same period, the borough's population will grow older, with the percentage of the population aged over 75 years doubling.
- **Council Tax increase** – the increase in Council Tax as part of the 2019/20 budget by 2.99%, and any ongoing increases, will not prevent the need for continued efficiencies, but will put pressure upon resident household budgets.
- **Lancashire County Council Budget constraints** – as LCC prepares to make savings of c£120m over the period 2019/20 to 2022/23, the impact of financial restrictions upon LCC and the future reduction in service provision by the County, will undoubtedly put pressure upon the council and potential considerations around supporting services or assets that have been reduced or removed. In the short term the biggest impact will be on Chorley Council's budget including the continued funding of bus services that is estimated at approximately £85k per annum.
- **Supporting Communities** – the council continues to face challenges, in supporting neighbourhoods under stress, and concentrations of unemployment to promote social and economic growth. Our challenge will be to support this activity, alongside reduced public sector funding.
- **Brexit** – the UK's withdrawal from the European Union in October 2019 may have implications for the council over the coming year. The key impacts for our council will be around the potential for a reduction in economic growth and the implications for our local economy, the impact on the national workforce and reductions in the supply of local labour and the uncertainty around the replacement for the current EU funding programmes which have previously encouraged the creation of jobs as well as local economic growth.
- **Effective partnership working** – The ongoing increase and changing demand placed upon the council, coupled with reducing budgets will increase the need for all public sector organisations to transform the way they work. The council will need to support, invest and maintain its focus on partnership working, ensuring the capacity exists to generate savings, and protect the interests of the borough and residents.
- **Financial climate** – the Council may experience future reductions in funding if the government's austerity measures continue. The 2019/20 MTFS identifies a cumulative net budget shortfall of £1.672m by 2021/22. The impact of this deficit will influence the work of the transformation programme that will deliver efficiency savings in services, drive down the cost of its contracts as well as identifying additional income through charging for the services the council provides and generating additional income streams.

Over the past year, the council has successfully responded to the significant financial restrictions that have been imposed on local government. Since 2014/15 and including 2019/20 the council has made savings and generated additional income of £5.058m.

- **Business Rates** - starting in 2021, the revaluations of business rates may take place every three years and with new valuations there is a potential for a significant increase in appeals.

This change in revaluation frequency and increased appeals could potentially result in further decrease in rateable values and a subsequent erosion of any growth the Council can retain. The largest risk to the value of business rates that the council retains comes in 2020/21 when a new funding methodology is expected to be introduced. The new system includes a revised calculation as to how much of the retained business rates income the council 'needs' relative to other councils, this could result in the council receiving less of the national 'pool' of business rates income. In addition, the new system could revise the split of retained business rates between borough councils, county councils and other preceptors. It is possible that more of the income collected by district councils will be redistributed to county councils. Consultation regarding the new regime also suggests bringing New Homes Bonus allocations into the calculation providing more uncertainty surrounding the council's funding streams.

### *Opportunities*

- Current levels of **interest rates** for borrowing are low due to the stability of the base rate (currently at 0.75%). This provides the opportunity for the Council to invest in capital projects to deliver Corporate Strategy priorities including the generation of new income streams, and may stimulate further economic growth
- The development of the **£8m Strawberry Fields Digital Health Park** will bring growth, jobs and opportunities to the borough, potentially injecting a further £18.5m into the Chorley economy.
- The **development of new employment sites** provides the council with the opportunity to deliver employment and income generating opportunities, possibly through new service delivery models such as joint ventures with other public or private entities.
- The **Integrated Community Wellbeing Service** continues to focus public services that relate to promoting health and wellbeing of individuals, tackling prevention and early intervention.
- Workforces from a range of partners, who deliver reform within Chorley are working collectively to drive forward **new ways of working**, and delivering efficiencies, particularly in the support of the health agenda. This work is now delivering a range of projects that will seek to achieve savings across the public sector through reduced duplication, reduced demand and increased preventative activity. The council is investing £1m to vastly enhance the customer experience at Union Street by creating a centralised customer service point and creating a self-service area. It will also create more meeting space and increase office space by up to 40%.
- **Enterprise** - The Localism Act 2011 enabled councils to seek and develop new income generation opportunities. In 2019/20 the council will deliver several opportunities for income generation however the council continues to be ambitious and has identified additional opportunities including investment in local health services as well as creating additional council-owned commercial letting space in the town centre.

**Delivering Chorley Council’s Priorities – The Medium Term Financial Strategy**

These challenges and risks can have both a significant positive or negative effect on the council’s resources and its ability to deliver services to residents. The council’s annually approved Medium Term Financial Strategy (MTFS) provides a clear and concise view of the council’s future sustainability and the strategies the council will pursue to address any budget gaps whilst translating the council’s corporate strategy into deliverable options for the future.

A balanced budget for 2018/19 was approved at Full Council on 26 February 2019. Despite the budget savings identified in the MTFS there remains a net forecast budget deficit of £1.196m in 2020/21 and £1.672m in 2021/22. To achieve a sufficient reduction in net expenditure the council’s strategy, to be overseen by the Transformation Board, will be:

- 1. To make the council more financially self-sufficient with specific emphasis on creating investment that generates income. This includes identifying future uncommitted resources to support income generating schemes.**
- 2. To realise savings through the procurement of its contracts**
- 3. To identify the efficiencies through investment in infrastructure, ICT and through exploring alternative delivery models that will enable the council to balance the budget whilst seeking to minimise the impact on front line service users**

The council has 10 separate projects that the transformation board monitors and supports in order to deliver the transformation strategy. As per the table below these projects have been grouped into the following headings with savings and additional net income targets.

	2020/21 £m	2021/22 £m
<b>Adjusted Budget Deficit/(Available Resources)</b>	<b>1.196</b>	<b>1.672</b>
<b><i>Contract Savings</i></b>		
Leisure Centre Management (expires October 2020)	(0.217)	(0.446)
<b><i>Income Generation</i></b>		
Market Walk Extension	(0.300)	(0.300)
Strawberry Fields Digital Hub	(0.139)	(0.174)
Primrose Gardens Residential Village	(0.006)	(0.014)
Parking Income	(0.180)	(0.180)
Employment Sites	-	(0.200)
<b>Total Income Generation</b>	<b>(0.625)</b>	<b>(0.868)</b>
<b><i>Efficiency Savings</i></b>		
Efficiency Savings	(0.355)	(0.358)
<b>Final Budget Deficit/(Available Resources)</b>	<b>0.000</b>	<b>0.000</b>

The Council will continue to keep the MTF5 under review given:

- the level of efficiency savings and income generation required to balance the budget over the medium term. The timing of the delivery of these targets will need to be closely managed and where necessary reserves utilised to meet temporary delays in transformation strategy net budget reductions.
- the high degree of uncertainty surrounding the changes to Government policy such as business rates retention, fair funding review and Brexit.

### **Going Concern**

Chorley Council's MTF5 outlines the strategies it will pursue to meet current and future funding shortfalls. The approval of a balanced budget for 2019/20 has already been given and there is no reason to believe that the risks to the approval of the council's budget in future years will not be entirely mitigated through the transformation programme. We have accordingly considered it appropriate to adopt a going concern basis for the preparation of these financial statements.

### **Receipt of Further Information**

If you would like to receive any further information about these accounts, please do not hesitate to contact Chorley Borough Council on 01257 515151.

**Accounting Policy Changes**

The new or amended international financial reporting standards or international accounting standards introduced by the Code of Practice on Local Authority Accounting in the United Kingdom 2018/19 include:

- IFRS 9 Financial Instruments
- IFRS 15 Revenue from Contracts with Customers
- Amendments to IFRS 15: Clarifications to IFRS 15 Revenue from Contracts with Customers
- Amendments to IAS 12 Income Taxes: Recognition of Deferred Tax Assets for Unrealised Losses
- Amendments to IAS 7 Statement of Cash Flows: Disclosure Initiative

The impact of these changes on the Authority's financial statements is limited to minor changes to the wording of accounting policies and to the detail of the presentation of a small number of disclosures.

## Financial Statements

Page 42 **Expenditure and Funding Analysis note 1** – This note shows how annual expenditure is used and funded from resources (government grants, rents, council tax and business rates) by local authorities in comparison with those resources consumed or earned by authorities in accordance with generally accepted accounting practices. It also shows how this expenditure is allocated for decision making purposes between the council's directorates. Income and expenditure accounted for under generally accepted accounting practices is presented more fully in the Comprehensive Income and Expenditure Statement

The core financial statements consist of the following:

Page 43 **Comprehensive Income and Expenditure Statement** – This statement shows the accounting cost in the year of providing services in accordance with generally accepted accounting practices.

Page 44 **Movement in Reserves Statement** – Levels of reserves, and movements therein, are indicators of the financial strength of the organisation. This statement distinguishes usable from unusable reserves. The distinction is explained in the Balance Sheet comment below.

The Movement in Reserves Statement shows the surplus or deficit arising in the year on the Provision of Service. This is the true economic cost of providing the authority's services (as detailed in the Comprehensive Income and Expenditure Statement). For the purposes of council tax setting, however, a series of statutory adjustments are then made, resulting in a line entitled "Net Increase/Decrease before transfers to Earmarked Reserves." The final line shows any such discretionary transfers to or from earmarked reserves.

Page 46 **The Balance Sheet** – this shows the value of the assets and liabilities recognised by the authority. The total of these, the Net Assets, is matched by the authority's reserves, as shown in the lower part of the Balance Sheet.

Reserves are categorised into "Usable", i.e. available to fund expenditure or reduce local taxation, and "Unusable". The latter includes the Revaluation Reserve (holding unrealised gains in property values), and other reserves holding amounts arising from differences between the accounting basis used in compiling the Comprehensive Income and Expenditure Statement and statutory basis prescribed for taxation purposes.

Page 47 **Cash Flow Statement** – this shows the changes in cash and cash equivalents during the reporting period. It shows how cash and cash equivalents are generated and used by classifying cash flows into operating, investment and financing activities.

Page 48 **Notes to the Main Financial Statements** – these add to and interpret the individual statements.

## SUPPLEMENTARY FINANCIAL STATEMENTS

Page 110 **Collection Fund Statement** – this is an agent's statement that reflects the statutory obligation for billing authorities to record transactions relating to the collection of Council Tax and Non-Domestic Rates, and their distribution to precepting authorities, the Government, and the Council itself.

## Statement of Responsibilities

This statement defines the responsibility of the Council and the Responsible Financial Officer in respect of the Authority's financial affairs.

### The Council's responsibilities

The Council shall:

- make arrangements for the proper administration of its financial affairs and secure that one of its officers has the responsibility for the administration of those affairs. In this Authority, that officer is the Chief Finance Officer;
- manage its affairs to secure economic, efficient and effective use of resources and safeguard its assets; and
- approve the Statement of Accounts.

### The Chief Finance Officer's Responsibilities

The Chief Finance Officer is responsible for preparing the Authority's Statement of Accounts in accordance with proper practices as set out in the Chartered Institute of Public Finance and Accountancy (CIPFA) Code of Practice on Local Authority Accounting in the United Kingdom 2018/19 (the Code).

In preparing this Statement of Accounts, he has:

- selected suitable accounting policies and applied them consistently;
- made judgements and estimates that are reasonable and prudent; and
- complied with the local authority Code.

He has also:

- kept proper accounting records which are up to date; and
- taken reasonable steps for the prevention and detection of fraud and other irregularities.

### Certificate

I certify that the Statement of Accounts gives a true and fair view of the financial position of the Authority at 31 March 2019 and its Income and Expenditure for the year ended 31 March 2019.

Gary Hall BA CPFA  
Chief Finance Officer  
Date 31 July 2019

I confirm that the Statement of Accounts was approved by Governance Committee on 24 July 2019.

Councillor Debra Platt  
Chair, Governance Committee  
Date 31 July 2019

## Expenditure and Funding Analysis – Note 1 to Main Financial Statements

The Expenditure and Funding Analysis, which is a note to the Main Financial Statements, shows how annual expenditure is used and funded from resources (government grants, rents, council tax and business rates) by local authorities in comparison with those resources consumed or earned by authorities in accordance with generally accepted accounting practices. It also shows how this expenditure is allocated for decision making purposes between the council's directorates. Income and expenditure accounted for under generally accepted accounting practices is presented more fully in the Comprehensive Income and Expenditure Statement.

2017/18				2018/19		
Net Expenditure Chargeable to the General Fund Balance	Adjustments between the Funding and Accounting Basis	Net Expenditure in the Comprehensive Income and Expenditure Statement		Net Expenditure Chargeable to the General Fund Balance	Adjustments between the Funding and Accounting Basis	Net Expenditure in the Comprehensive Income and Expenditure Statement
£'000	£'000	£'000	Directorate	£'000	£'000	£'000
5,241	786	6,027	Customer & Digital	6,498	996	7,494
4,511	110	4,621	Policy & Governance	4,541	130	4,671
2,075	904	2,979	Early Intervention	2,117	716	2,833
980	2,707	3,687	Business, Development & Growth	1,314	1,897	3,211
			Budgets excluded from Directorate monitoring			
1,006	368	1,374	• Pensions-related	1,056	219	1,275
(138)	0	(138)	• Housing Benefits/Council Tax Discounts	(175)	0	(175)
(1,748)	525	(1,223)	• Market Walk (excluding financing costs)	(1,686)	1,923	237
395	0	395	• Other expenditure	177	0	177
<b>12,322</b>	<b>5,400</b>	<b>17,722</b>	<b>Net Cost of Service</b>	<b>13,842</b>	<b>5,881</b>	<b>19,723</b>
(14,176)	(6,945)	(21,121)	Other Income and Expenditure	(11,594)	(14,039)	(25,633)
<b>(1,854)</b>	<b>(1,545)</b>	<b>(3,399)</b>	<b>(Surplus)/Deficit in year</b>	<b>2,248</b>	<b>(8,158)</b>	<b>(5,910)</b>
<b>(10,468)</b>			Opening General Fund Balance at 1 April	<b>(12,322)</b>		
(1,854)			Add (Surplus)/Less Deficit on General Fund Balance in Year	2,248		
<b>(12,322)</b>			<b>Closing General Fund Balance at 31 March</b>	<b>(10,074)</b>		

## Comprehensive Income and Expenditure Statement

This statement shows the accounting cost in the year of providing services in accordance with generally accepted accounting practices. This is not the amount to be funded from taxation, since authorities raise taxation to cover expenditure in accordance with regulations. The taxation position is shown in the Expenditure and Funding Analysis and the Movement in Reserves Statement.

2017/18				2018/19		
Gross Expenditure	Gross Income	Net Expenditure		Gross Expenditure	Gross Income	Net Expenditure
£'000	£'000	£'000		£'000	£'000	£'000
10,338	(4,311)	6,027	Customer & Digital	10,881	(3,387)	7,494
6,007	(1,386)	4,621	Policy & Governance	5,801	(1,130)	4,671
5,811	(2,832)	2,979	Early Intervention	4,435	(1,602)	2,833
5,843	(2,156)	3,687	Business, Development & Growth	6,080	(2,869)	3,211
			Budgets excluded from Directorate monitoring			
1,374	0	1,374	<ul style="list-style-type: none"> <li>Pensions-related</li> </ul>	1,275	0	1,275
24,568	(24,706)	(138)	<ul style="list-style-type: none"> <li>Housing Benefits/Council Tax Discounts</li> </ul>	23,204	(23,379)	(175)
887	(2,110)	(1,223)	<ul style="list-style-type: none"> <li>Market Walk (excluding financing costs)</li> </ul>	2,308	(2,071)	237
395	0	395	<ul style="list-style-type: none"> <li>Other expenditure</li> </ul>	177	0	177
<b>55,223</b>	<b>(37,501)</b>	<b>17,722</b>	<b>Cost of Services</b>	<b>54,161</b>	<b>(34,438)</b>	<b>19,723</b>
3,707	(2,813)	894	Other operating expenditure (note 12)	684	0	684
3,927	(2,390)	1,537	Financing and investment income and expenditure (note 13)	4,072	(2,564)	1,508
6,158	(29,710)	(23,552)	Taxation and non-specific grant income (note 14)	6,336	(34,161)	(27,825)
		<b>(3,399)</b>	<b>(Surplus)/deficit on provision of services</b>			<b>(5,910)</b>
		(2,589)	(Surplus)/deficit on revaluation of Property, Plant and Equipment assets			(35)
		(6,411)	Re-measurement of the net defined benefit liability (note 39d)			(699)
		<b>(9,000)</b>	<b>Other Comprehensive (Income) and Expenditure</b>			<b>(734)</b>
		<b>(12,399)</b>	<b>Total Comprehensive (Income) and Expenditure</b>			<b>(6,644)</b>

## Movement in Reserves Statement

The Movement in Reserves Statement shows the movement from the start of the year to the end on the different reserves held by the authority, analysed into 'usable reserves' (i.e. those that can be applied to fund expenditure or reduce local taxation) and other 'unusable reserves'. The Statement shows how the movements in year of the authority's reserves are broken down between gains and losses incurred in accordance with generally accepted accounting practices and the statutory adjustments required to return to the amounts chargeable to council tax for the year. The Net Increase/Decrease line shows the statutory General Fund Balance movement in the year following those adjustments.

	General Fund Working Balance £'000	General Fund Earmarked Reserves (note 11) £'000	Total General Fund Balance £'000	Capital Receipts Reserve £'000	Capital Grants Unapplied £'000	Total Usable Reserves (note 25) £'000	Unusable Reserves (note 26) £'000	Total Reserves £'000
<b>Current Year</b>								
<b>Balance at 31 March 2018</b>	<b>(4,000)</b>	<b>(8,322)</b>	<b>(12,322)</b>	<b>(1,499)</b>	<b>(13,966)</b>	<b>(27,787)</b>	<b>8,460</b>	<b>(19,327)</b>
<b>Movement in reserves during 2018/19</b>								
Total Comprehensive Income and Expenditure	(5,910)	0	<b>(5,910)</b>	0	0	<b>(5,910)</b>	(734)	<b>(6,644)</b>
Adjustments between accounting basis and funding basis under regulations (Note 10)	8,158	0	<b>8,158</b>	428	(64)	<b>8,522</b>	(8,522)	<b>0</b>
<b>Increase or decrease in 2018/19 before transfers to/(from) earmarked reserves</b>	<b>2,248</b>	<b>0</b>	<b>2,248</b>	<b>428</b>	<b>(64)</b>	<b>2,612</b>	<b>(9,256)</b>	<b>(6,644)</b>
Movement in Earmarked Reserves (Note 11)	(2,248)	2,248	<b>0</b>	0	0	<b>0</b>	0	<b>0</b>
<b>Increase or decrease in 2018/19</b>	<b>0</b>	<b>2,248</b>	<b>2,248</b>	<b>428</b>	<b>(64)</b>	<b>2,612</b>	<b>(9,256)</b>	<b>(6,644)</b>
<b>Balance at 31 March 2019 carried forward</b>	<b>(4,000)</b>	<b>(6,074)</b>	<b>(10,074)</b>	<b>(1,071)</b>	<b>(14,030)</b>	<b>(25,175)</b>	<b>(796)</b>	<b>(25,971)</b>

	<b>General Fund Working Balance</b> £'000	<b>General Fund Earmarked Reserves (note 11)</b> £'000	<b>Total General Fund Balance</b> £'000	<b>Capital Receipts Reserve</b> £'000	<b>Capital Grants Unapplied</b> £'000	<b>Total Usable Reserves (note 25)</b> £'000	<b>Unusable Reserves (note 26)</b> £'000	<b>Total Reserves</b> £'000
<b>Comparative Year</b>								
<b>Balance at 31 March 2017</b>	<b>(3,188)</b>	<b>(7,280)</b>	<b>(10,468)</b>	<b>(1,235)</b>	<b>(9,925)</b>	<b>(21,628)</b>	<b>14,701</b>	<b>(6,927)</b>
<b>Movement in reserves during 2017/18</b>								
Total Comprehensive Income and Expenditure	(3,399)	0	<b>(3,399)</b>	0	0	<b>(3,399)</b>	(9,000)	<b>(12,399)</b>
Adjustments between accounting basis and funding basis under regulations (Note 10)	1,545	0	<b>1,545</b>	(263)	(4,040)	<b>(2,758)</b>	2,758	<b>0</b>
<b>Increase or decrease in 2017/18 before transfers to/(from) earmarked reserves</b>	<b>(1,854)</b>	<b>0</b>	<b>(1,854)</b>	<b>(263)</b>	<b>(4,040)</b>	<b>(6,157)</b>	<b>(6,242)</b>	<b>(12,399)</b>
Movement in Earmarked Reserves (Note 11)	1,042	(1,042)	<b>0</b>	0	0	<b>0</b>	0	<b>0</b>
Other movements	0	0	<b>0</b>	(1)	(1)	<b>(2)</b>	1	<b>(1)</b>
<b>Increase or decrease in 2017/18</b>	<b>(812)</b>	<b>(1,042)</b>	<b>(1,854)</b>	<b>(264)</b>	<b>(4,041)</b>	<b>(6,159)</b>	<b>(6,241)</b>	<b>(12,400)</b>
<b>Balance at 31 March 2018 carried forward</b>	<b>(4,000)</b>	<b>(8,322)</b>	<b>(12,322)</b>	<b>(1,499)</b>	<b>(13,966)</b>	<b>(27,787)</b>	<b>8,460</b>	<b>(19,327)</b>

## Balance Sheet

The Balance Sheet shows the value as at the Balance Sheet date of the assets and liabilities recognised by the authority. It shows the net assets of the authority which are matched by the reserves held. Reserves are reported in two categories. 'Usable Reserves' includes reserves available to provide services and other reserves which may only be used to fund capital expenditure or repay debt. 'Unusable Reserves' fall into two categories. The first consists of the Revaluation Reserve which holds unrealised gains and losses in asset values. The second category holds amounts resulting from the "adjustments between the accounting basis and the funding basis", as shown in the Movement in Reserves Statement (MiRS).

31 March 2018 £'000		Notes	31 March 2019 £'000
74,257	Property, Plant & Equipment	15	91,621
2,452	Heritage Assets	16	2,531
887	Investment Property	17	885
70	Intangible Assets	18	64
412	Long-Term Debtors	19	462
<b>78,078</b>	<b>Long-Term Assets</b>		<b>95,563</b>
0	Assets Held for Sale	23	0
9,617	Short-Term Debtors	20	5,645
1,356	Cash and Cash Equivalents	22	2,917
<b>10,973</b>	<b>Current Assets</b>		<b>8,562</b>
(1,413)	Short-Term Borrowing	19	(2,215)
(5,991)	Short-Term Creditors	23	(8,992)
(896)	Provisions	24	(1,194)
<b>(8,300)</b>	<b>Current Liabilities</b>		<b>(12,401)</b>
(664)	Long-Term Creditors	19	(682)
(13,990)	Long-Term Borrowing	19	(18,949)
(45,239)	Other Long-Term Liabilities – pensions	38	(45,997)
(15)	Other Long-Term Liabilities – other		(15)
(1,516)	Grant Receipts in Advance - Capital	34	(111)
<b>(61,424)</b>	<b>Long Term Liabilities</b>		<b>(65,754)</b>
<b>19,327</b>	<b>Net Assets</b>		<b>25,970</b>
27,787	Usable Reserves	MiRS, 25	25,175
(8,460)	Unusable Reserves	26	795
<b>19,327</b>	<b>Total Reserves</b>		<b>25,970</b>

The unaudited accounts were issued on 31 May 2019, and the audited accounts were authorised for issue on 31 July 2019.

## Cash Flow Statement

The Cash Flow Statement shows the changes in cash and cash equivalents of the authority during the reporting period. The statement shows how the authority generates and uses cash and cash equivalents by classifying cash flows as operating, investing and financing activities. The amount of net cash flows arising from operating activities is a key indicator of the extent to which the operations of the authority are funded by way of taxation and grant income or from the recipients of services provided by the authority. Investing activities represent the extent to which cash outflows have been made for resources which are intended to contribute to the authority's future service delivery. Cash flows arising from financing activities are useful in predicting claims on future cash flows by providers of capital (i.e. borrowing) to the authority.

<b>2017/18 £'000</b>		<b>2018/19 £'000</b>
3,399	Net surplus or (deficit) on the provision of services (CI&ES page 43)	5,910
9,125	Adjustments to net surplus or deficit on the provision of services for non-cash movements (Note 27a)	6,550
(11,940)	Adjustment for items included in the net surplus or deficit on the provision of services that are investing or financing activities (Note 27b)	(14,108)
<b>584</b>	<b>Net cash flows from Operating Activities (Note 27)</b>	<b>(1,648)</b>
2,479	Investing Activities (Note 28)	(3,500)
(2,710)	Financing Activities (Note 29)	6,709
<b>353</b>	<b>Net increase or (decrease) in cash and cash equivalents</b>	<b>1,561</b>
1,003	Cash and cash equivalents at the beginning of the reporting period	1,356
<b>1,356</b>	<b>Cash and cash equivalents at the end of the reporting period (Note 21)</b>	<b>2,917</b>

Cash and Cash Equivalents at the beginning and end of the 2018/19 reporting period have been defined to be net of the bank overdraft.

## Notes to the Main Financial Statements

**NOTE:** values throughout these accounts are presented rounded to whole numbers (usually thousands or millions of pounds). Totals in supporting tables and notes may appear not to cast, cross-cast, or exactly match to the Core Financial Statements or other tables, due to rounding differences.

### 1 EXPENDITURE AND FUNDING ANALYSIS – NOTE TO MAIN FINANCIAL STATEMENT

The Expenditure and Funding Analysis note 1 is presented on page 42.

### 2 ACCOUNTING POLICIES

These notes explain the policies used to ensure the Council's financial position is fairly presented.

#### 2.1 General Principles

The Statement of Accounts summarises the Council's transactions for the 2018/19 financial year and its position at the year end of 31 March 2019. The Council is required to prepare an annual Statement of Accounts by the Accounts and Audit (England) Regulations 2015 which require the accounts to be prepared in accordance with proper accounting practices. These practices primarily comprise the Chartered Institute of Public Finance and Accountancy 2018/19 Code of Practice on Local Authority Accounting in the United Kingdom (the Code), supported by International Financial Reporting Standards (IFRS).

The accounting convention adopted in the Statement of Accounts is principally historical cost, modified by the revaluation of certain categories of non-current assets and financial instruments.

#### 2.2 Accruals of Income and Expenditure (Revenue Recognition)

The Income and Costs of the Council are accounted for in the period to which they relate, regardless of when the cash is paid or received. In particular:

- Revenue from contracts with service recipients, whether for services or the provision of goods, is recognised when (or as) the goods or services are transferred to the service recipient in accordance with the performance obligations in the contract.
- Revenue from Council Tax and Business Rates is measured at the full amount receivable (net of impairment losses) as they are non-contractual, non-exchange transactions. Revenue from non-exchange transactions shall be recognised when it is probable that the economic benefits or service potential associated with the transaction will flow to the authority, and the amount of the revenue can be measured reliably.
- Supplies are recorded as expenditure when they are consumed – where there is a gap between the date supplies are received and their consumption, they are carried as inventories on the Balance Sheet if balances are material.
- Expenses in relation to services received (including services provided by employees) are recorded as expenditure when the services are received rather than when payments are made.
- Interest receivable on investments and payable on borrowings is accounted for respectively as income and expenditure on the basis of the effective interest rate for the

relevant financial instrument rather than the cash flows fixed or determined by the contract.

- Where revenue and expenditure have been recognised but cash has not been received or paid, a debtor or creditor for the relevant amount is recorded in the Balance Sheet. Where debts may not be settled, the balance of debtors is written down and a charge made to revenue for the income that might not be collected.

### **2.3 Cash and Cash Equivalents**

Cash and Cash Equivalents are shown net of bank overdrafts that are repayable on demand. Cash consists of cash in hand and deposits repayable without penalty on notice of not more than 24 hours.

Cash Equivalents consist of highly liquid investments which mature in less than three months from the date of acquisition and that are readily convertible to known amounts of cash with insignificant risk of change in value.

### **2.4 Charges to Revenue for Non-Current Assets**

To record the cost of holding non-current assets during the year, services, and support services are debited with depreciation charges, revaluation and impairment losses in excess of accumulated revaluation gains, and amortisation charges in respect of intangible assets.

The Council is not required to raise council tax to fund depreciation, revaluation and impairment losses or amortisation. However, it is required to make an annual contribution from revenue towards the reduction in its overall borrowing requirement (equal to an amount calculated on a prudent basis determined by the Council in accordance with statutory guidance). Depreciation, revaluation and impairment losses and amortisation are therefore replaced by the Minimum Revenue Provision (MRP) contribution, by way of an adjusting transaction with the Capital Adjustment Account in the Movement in Reserves Statement for the difference between the two.

### **2.5 Council Tax and Non-Domestic Rates**

Billing authorities such as Chorley Borough Council act as agents, collecting council tax and non-domestic rates (NDR) on behalf of the major preceptors (including government for NDR) and, as principals, collecting council tax and NDR for themselves. Billing authorities are required by statute to maintain a separate fund (i.e. the Collection Fund) for the collection and distribution of amounts due in respect of council tax and NDR. Under the legislative framework for the Collection Fund, billing authorities, major preceptors and central government share proportionately the risks and rewards that the amount of council tax and NDR collected could be less or more than predicted.

#### **Accounting for Council Tax and National Non-Domestic Rates**

The council tax and NDR income included in the Comprehensive Income and Expenditure Statement is the authority's share of accrued income for the year. However, regulations determine the amount of council tax and NDR that must be included in the authority's General Fund. Therefore, the difference between the income included in the Comprehensive Income and Expenditure Statement and the amount required by regulation to be credited to the General Fund is taken to the Collection Fund Adjustment Account and included as a reconciling item in the Movement in Reserves Statement.

The Balance Sheet includes the authority's share of the end of year balances in respect of council tax and NDR relating to arrears, impairment allowances for doubtful debts, overpayments and prepayments and appeals.

## 2.6 Contingent Assets and Liabilities

A contingent asset or liability arises where an event has taken place that gives the Authority a possible asset or obligation whose existence will only be confirmed by the occurrence or otherwise of uncertain future events not wholly within its control. Contingent liabilities are not recognised in the Balance Sheet but are disclosed in a note to the core financial statements. Contingent assets are disclosed in a note where it is probable that there will be an inflow of economic benefits or service potential.

## 2.7 Exceptional Items

When items of income or expense are material, their nature and amount is disclosed separately, either on the face of the Comprehensive Income and Expenditure Statement, or in the notes to the main financial statements, depending on their significance.

## 2.8 Employee Benefits

### Benefits payable during employment

Short-term employee benefits are those due to be settled wholly within 12 months of the year-end. They include such benefits as wages and salaries, paid annual leave and paid sick leave, bonuses and non-monetary benefits for current employees and are recognised as an expense for services in the year in which employees render service to the authority. An accrual is made for the cost of holiday entitlements (or any form of leave, e.g. time off in lieu) earned by employees but not taken before the year-end which employees can carry forward into the next financial year. The accrual is made at the wage and salary rates applicable in the following accounting year, being the period in which the employee takes the benefit. The accrual is charged to Surplus or Deficit on the Provision of Services, but then reversed out through the Movement in Reserves Statement so that holiday entitlements are charged to revenue in the financial year in which the holiday absence occurs.

### Termination benefits

These are amounts payable as a result of a decision to terminate an officer's employment before the normal retirement date or a decision by an officer to accept voluntary redundancy. The costs are recognised when the Council commits itself to terminate the employment of an officer or group of officers or makes an offer to encourage voluntary redundancy. The charge is made to the relevant service line in the Comprehensive Income and Expenditure Statement.

Where termination benefits involve the enhancement of pensions, statutory provisions require the General Fund balance to be charged with the amount payable by the Council to the pension fund or pensioner in the year, not the amount calculated according to the relevant accounting standards. In the Movement in Reserves Statement, appropriations are required to and from the Pension Reserve to remove the notional debits and credits for pension enhancement termination benefits and replace them with debits for the cash paid to the pension fund and pensioners and any such amounts payable but unpaid at the year-end.

### Post-employment benefits

Employees are members of the Local Government Pension Scheme which provides defined benefits to members. Full details of transactions are given in Note 38. The following notes explain the methodology.

The liabilities of the fund attributable to the Authority are included in the Balance Sheet on an actuarial basis using the projected unit method – i.e. an assessment of the future payments that will be made in relation to retirement benefits earned to date by employees, based on assumptions about mortality rates, employee turnover rates etc. and projections of earnings for current employees.

The assets of the fund attributable to the Authority are included in the Balance Sheet at their fair value:

- quoted securities – current bid price
- unquoted securities – professional estimate
- unitised securities – current bid price
- property – market value

The change in net pension liability is analysed into the following components:

Service cost comprising:

- current service cost – the increase in liabilities as a result of years of service earned this year – allocated in the Comprehensive Income and Expenditure Statement to the services for which the employees worked;
- past service cost – the increase in liabilities as a result of a scheme amendment or curtailment whose effect relates to years of service earned in earlier years will be debited to the Surplus or Deficit on the Provision of Services in the Comprehensive Income and Expenditure Statement as part of Non-Distributed Costs;
- net interest on the net defined benefit liability i.e. net interest expense for the Council - the change during the period in the net defined benefit liability that arises from the passage of time charged to the Financing and Investment Income and Expenditure line of the Comprehensive Income and Expenditure Statement. This is calculated by applying the discount rate used to measure the defined benefit obligation at the beginning of the period to the net defined benefit liability at the beginning of the period, taking into account any changes in the net defined benefit liability during the period as a result of contribution and benefit payments;

Re-measurement comprising:

- the return on plan assets – excluding amounts included in net interest on the net defined benefit liability – charged to the Pensions Reserve as Other Comprehensive Income and Expenditure;
- actuarial gains and losses – changes in the net pensions liability that arise because events have not coincided with assumptions made at the last actuarial valuation or because the actuaries have updated their assumptions – charged to the Pensions Reserve as Other Comprehensive Income and Expenditure.

Contributions paid to the pension fund:

- cash paid as employer's contributions to the pension fund in settlement of liabilities; not accounted for as an expense.

In relation to retirement benefits, statutory provisions require the General Fund Balance to be charged with the amount payable by the Council to the pension fund or directly to pensioners in the year, not the amount calculated according to the relevant accounting standards. In the Movement in Reserves Statement, this means that there are appropriations to and from the Pensions Reserve to remove the notional debits and credits for retirement benefits and replace them with debits for the cash paid to the pension fund and pensioners and any such amounts payable but unpaid at the year-end. The negative balance that arises on the Pensions Reserve thereby measures the beneficial impact to the General Fund of being required to account for retirement benefits on the basis of cash flows rather than as benefits are earned by employees.

#### Discretionary Benefits

The Council also has restricted powers to make discretionary awards of retirement benefits in the event of early retirements. Any liabilities estimated to arise as a result of an award to any member

of staff are accrued in the year of the decision to make the award and accounted for using the same policies as are applied to the Local Government Pension Scheme.

## **2.9 Events after the Reporting Period**

Events after the Balance Sheet date are those events, both favourable and unfavourable, that occur between the end of the reporting period and the date when the Statement of Accounts is authorised for issue. Two types of events can be identified:

- those that provide evidence of conditions that existed at the end of the reporting period – the Statement of Accounts is adjusted to reflect such events
- those that are indicative of conditions that arose after the reporting period – the Statement of Accounts is not adjusted to reflect such events, but where a category of events would have a material effect, disclosure is made in the notes of the nature of the events and their estimated financial effect.

Events taking place after the date of authorisation for issue are not reflected in the Statement of Accounts.

## **2.10 Financial Instruments**

### Financial Liabilities

Borrowings are initially measured at fair value and carried at their amortised cost. The annual charge to the Comprehensive Income and Expenditure Statement (CIES) is based on the carrying amount multiplied by the effective rate of interest. The amount presented in the Balance Sheet is the outstanding principal payable plus interest accrued at 31 March.

Gains or losses on premature redemption are charged to the Comprehensive Income and Expenditure Statement unless they are the result of a restructure that involves the modification or exchange of existing instruments, in which case they are added to the amortised cost and charged over the life of the modified or exchanged loan. Where charged to the Comprehensive Income and Expenditure Statement, regulations require discounts to be amortised over the shorter of the life of the original loan or ten years. Greater discretion applies to premia, they can be amortised over the life of the original or replacement loan, or a shorter period. A transfer is done from the General Fund Balance to the Financial Instruments Adjustment Account to give effect to these regulations.

### Financial Assets

Financial assets measured at amortised cost are initially measured at fair value and carried at amortised cost. The annual credit to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement is based on the carrying amount multiplied by the effective rate of interest. The amount presented in the Balance Sheet is the outstanding principal receivable plus interest accrued at 31 March.

The council recognises expected credit losses on all of its financial assets measured at amortised cost, either on a 12-month or lifetime basis. The expected credit loss model also applies to lease receivables and contract assets. Only lifetime losses are recognised for trade receivables (debtors) held by the authority. Where a financial asset measured at amortised cost is identified as being subject to an expected credit loss, this shall be recognised as an impairment and the loss charged to Financing and Investment Income and Expenditure in the Comprehensive Income and Expenditure Statement.

## 2.11 Going Concern

The accounts have been prepared on the assumption that the Council will continue in existence for the foreseeable future. Transfers of services under combinations of public sector bodies (such as local government reorganisation) do not negate the presumption of going concern.

## 2.12 Government Grants and Other Contributions

Whether paid on account, by instalments or in arrears, government grants and third party contributions and donations are recognised as due to the authority when there is reasonable assurance that:

- the authority will comply with the conditions attached to the payments, and
- the grants or contributions will be received.

Amounts recognised as due to the council are not credited to the Comprehensive Income and Expenditure Statement until conditions attached to the grant or contribution have been satisfied. Conditions are stipulations that specify that the future economic benefits or service potential embodied in the asset in the form of the grant or contribution are required to be consumed by the recipient as specified, or future economic benefits or service potential must be returned to the transferor.

Monies advanced as grants and contributions for which conditions have not been satisfied are carried in the Balance Sheet as creditors. When conditions are satisfied, the grant or contribution is credited to the relevant service line (attributable revenue grants and contributions) or Taxation and Non-specific Grant Income and Expenditure (non-ringfenced revenue grants and all capital grants) in the Comprehensive Income and Expenditure Statement.

Where capital grants are credited to the Comprehensive Income and Expenditure Statement, they are reversed out of the General Fund Balance in the Movement in Reserves Statement. Where the grant has yet to be used to finance capital expenditure, it is posted to the Capital Grants Unapplied Reserve. Where it has been applied, it is posted to the Capital Adjustment Account. Amounts in the Capital Grants Unapplied Reserve are transferred to the Capital Adjustment Account once they have been applied to fund capital expenditure.

### Community Infrastructure Levy

The authority has elected to charge a Community Infrastructure Levy (CIL). The levy will be charged on new builds with appropriate planning consent. The Authority charges for and collects the levy, which is a planning charge. The levy income will be used to fund a number of infrastructure projects to support the development of the area. CIL received is limited by regulations. It is therefore recognised at the commencement date of the development in the Comprehensive Income and Expenditure Statement in accordance with the above core accounting policy for grants and contributions. CIL charges will be largely to fund capital expenditure with a small proportion used to fund revenue.

## 2.13 Heritage Assets

Heritage assets are assets held principally for their contribution to culture and knowledge.

### *Astley Hall*

The house was built in the mid-seventeenth century, and extended in 1825. It was given to Chorley Council in 1922 as a memorial following the First World War. It houses a collection of paintings and furniture and has accredited museum status awarded by the Arts Council. The

house is valued using the depreciated cost method of valuation. Following a detailed condition survey in 2010/11, its value was reduced to a nominal £1 to reflect the substantial repair liability

#### *Other Heritage Assets*

The council's other heritage assets are all reported in the Balance Sheet at insurance valuation. The assets are as follows:

- Civic Regalia
- Astley Hall furniture and art collection
- Astley Park Entrance
- Benjamin Disraeli Statue

The carrying amounts of Heritage Assets are reviewed where there is evidence of impairment for Heritage Assets, for example where an item has suffered physical deterioration or breakage. Any impairment is recognised and measured in accordance with the Council's general policies on impairment.

The Council disposed of heritage assets in 2017/18. The proceeds of these items are accounted for in accordance with the authority's general provisions relating to the disposal of property, plant and equipment. Disposal proceeds are disclosed separately in the notes to the financial statements and are accounted for in accordance with statutory accounting requirements relating to capital expenditure and capital receipts.

#### **2.14 Intangible assets**

Expenditure on assets that do not have physical substance but are identifiable and controlled by the Council (e.g. software licences), is capitalised at cost if it will bring benefits to the Council for more than one financial year. Internally generated assets are capitalised where it is demonstrable that the Council will generate future economic benefits.

The cost is amortised over the economic life to reflect the pattern of consumption, the first year of charge being that in which the expenditure is incurred. The charge is made to the relevant service line in the Comprehensive Income and Expenditure Statement.

The postings in the Comprehensive Income and Expenditure Statement are reversed from the General Fund balance in the Movement in Reserves Statement and charged to the capital Adjustment Account.

#### **2.15 Investment Properties**

Investment properties are those held solely to earn rentals or for capital appreciation. The definition is not met if the property is used in any way to facilitate the delivery of services or production of goods or is held for sale.

They are measured initially at cost and subsequently at fair value. They are not depreciated but are re-valued annually by a RICS-qualified valuer. Gains and losses on revaluation are posted to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement. The same treatment is applied to gains and losses on disposal. Gains and losses on revaluation and disposal are not permitted by statute to impact on the council tax. A reversal is therefore done between the General Fund Balance and the Capital Adjustment Account (or, in the case of sale proceeds exceeding £10,000, to the Capital Receipts Reserve).

Rentals received in relation to investment properties are credited to the Financing and Investment Income line in the Comprehensive Income and Expenditure Statement.

## **2.16 Leasing**

Leases are classified as finance leases where the terms of the lease transfer substantially all the risks and rewards incidental to ownership of the asset from the lessor to the lessee. All other leases are classified as operating leases.

If the lease covers both land and buildings, then the land and building elements are considered separately for classification.

Arrangements that do not have the legal status of a lease but convey a right to use an asset in return for payment are accounted for under this policy where fulfilment of the arrangement is dependent on the use of specific assets.

### The Authority as lessee

#### **Operating leases**

Rentals are charged to the Comprehensive Income and Expenditure Statement as an expense of the service benefitting from the asset.

### The Authority as lessor

#### **Finance Leases**

Where the Authority grants a finance lease over an asset, it is written out of the Balance Sheet and charged to the "gain or loss on disposals" line in Other Operating Expenditure in the Comprehensive Income and Expenditure Statement. The Authority's net investment in the lease is credited to the same line, matched by a Long-Term Debtor in the Balance Sheet.

Lease rental receipts are split between finance income (credited to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement), and the principal element applied to write down the Long-Term Debtor.

#### **Operating leases**

Where the Authority grant an operating lease over an asset it remains on the Balance Sheet, and the income is credited to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement.

## **2.17 Non-Current Assets Held for Sale**

Accounting treatment is detailed in the Property Plant and Equipment, Disposal and Non-Current Assets Held for Sale policy.

## **2.18 Overheads**

The costs of overheads and support services are charged to service segments in accordance with the authority's arrangements for accountability and financial performance.

## **2.19 Prior Period Adjustments, Changes in Accounting Policies, and Estimates and Errors**

Prior period adjustments may arise as a result of a change in accounting policies or to correct a material error. Changes in estimates are accounted for prospectively, i.e. in the current and future years affected by the change, and do not give rise to a prior period adjustment.

Changes in accounting policies are only made when required by proper accounting practice or if the change provides more reliable or relevant information about the effect of transactions on the Council's financial position or financial performance. Where a change is made it is applied

retrospectively by adjusting opening balances and comparative amounts from prior periods. Material errors will also require a prior period adjustment. Material errors discovered in prior period figures are corrected retrospectively by amending opening balances and comparative amounts for the period.

## **2.20 Property Plant and Equipment (PPE)**

All expenditure on the acquisition, creation, or enhancement of Property, Plant and Equipment is capitalised on an accruals basis, provided it exceeds the 'de minimis' threshold of £5,000 and provides benefits to the Council for a period of more than one year.

### Measurement

Assets are initially measured at cost, comprising the purchase price, and any costs attributable to bringing the asset to the location and condition necessary for it to be capable of operating in the manner intended by the Council. The Authority does capitalise borrowing costs incurred whilst major assets are under construction.

Assets are then carried in the Balance Sheet using the following measurement bases:

- Infrastructure, Community Assets, Assets under Construction, and equipment, are held at depreciated historical cost.
- Surplus assets have a current value measurement base of fair value, which is estimated at highest and best use from a market participant's perspective.
- All other assets are measured at current value, determined as the amount that would be paid for the asset in its existing use.

In respect of specialised assets, if there is an absence of market based evidence of value, depreciated replacement cost is used as an estimate of current value.

Valuations are provided by RICS-qualified valuers, are on the basis recommended by CIPFA, and accord with the Statement of Asset Valuation Principles and Guidance Notes issued by the RICS. Assets held in the Balance Sheet at current value are revalued sufficiently regularly to ensure that their carrying amount is not materially different from their current value at the year-end, but as a minimum every five years.

Increases in valuations are credited to the Revaluation Reserve unless they reverse previous losses charged to the Comprehensive Income and Expenditure Statement, in which case the gain shall be credited to that account. A fall in value will be charged firstly against any balance held in the Revaluation Reserve. If this is insufficient or non-existent, the charge is made to the relevant service line in the Comprehensive Income and Expenditure Statement.

The Revaluation Reserve contains revaluations gains recognised since 1 April 2007 only, the date of its formal inception. Gains arising before that date have been consolidated into the Capital Adjustment Account.

### Depreciation

Non-current assets held for sale, assets under construction, and assets without a determinable finite useful life (such as freehold land and certain community assets) are not depreciated.

Other property is depreciated over its useful life on a straight line basis. Depreciation is based on the opening value of assets, weighted for part-year acquisitions or disposals if appropriate. Components are separately depreciated if:

- The total value of the host asset (excluding land) exceeds £0.5m and
- The value of the component exceeds 20% of the asset value (excluding land)

Depreciation periods are as follows:

	<u>years</u>
Property (excluding components separately identified)	5-70
Property components - mechanical	25
Portable office facilities	10-15
Vehicles	3-10
IT equipment	3-5
Other equipment	5-15

Revaluation gains are also depreciated by transfer of the difference between the current value depreciation charge and the historic cost depreciation charge, from the Revaluation Reserve to the Capital Adjustment Account.

#### Impairment

All assets are reviewed annually for impairment. If the recoverable amount of an asset is estimated to be less than its carrying amount, an impairment loss is recognised for the shortfall. Impairment losses are charged against revaluation gains held in the Revaluation Reserve. If these are inadequate the loss is charged to the relevant service line in the Comprehensive Income and Expenditure Statement.

If an impairment loss is subsequently reversed, the reversal, up to the amount of the original loss adjusted for depreciation, is credited to the relevant service line in the Comprehensive Income and Expenditure Statement.

#### Disposal and Non-current Assets Held for Sale

When it becomes probable that the carrying amount of an asset will be recovered principally through a sale transaction rather than through continuing use, it is reclassified as an Asset Held for Sale and shown within current assets. The asset is re-valued immediately and carried at the lower of this amount and fair value less costs to sell. If assets subsequently fail to meet the criteria to be classified as Assets Held for Sale, they revert and are reclassified back to non-current assets and valued at the lower of their carrying amount before they were classified as held for sale (adjusted for depreciation, amortisation or revaluations) and their recoverable amount at the date of the decision not to sell.

On disposal the carrying amount of an asset is written off to the Other Operating Expenditure line in the Comprehensive Income and Expenditure Statement as part of the gain or loss on disposal. Receipts exceeding £10,000 from disposal are credited to the same line; lesser receipts are included as service income in cost of services. Any revaluation gains accumulated in the Revaluation Reserve are transferred to the Capital Adjustment Account.

#### Capital Charges and Council Tax

The postings in the Comprehensive Income and Expenditure Statement in respect of depreciation, impairment, disposals and revaluation are reversed in the Movement in Reserves Statement to avoid impacting on council tax. Capital Receipts exceeding £10,000 are reversed to the Capital Receipts Reserve. Other reversals are to the Capital Adjustment Account

### **2.21 Provisions**

Provisions are made where an event has taken place that gives the Council an obligation that probably requires settlement by a transfer of economic benefits, but where the timing is uncertain. Provisions are charged to the appropriate revenue account. Expenditure, when incurred, is charged directly to the provision.

## **2.22 Reserves**

Reserves are created by appropriating amounts from the General Fund Balance in the Movement in Reserves Statement. When expenditure to be financed from the reserve is incurred, it is charged to the relevant service in the Comprehensive Income and Expenditure Statement, and the reserve is appropriated back into the General Fund Balance through the Movement in Reserves Statement.

## **2.23 Revenue Expenditure Funded from Capital Under Statute**

Expenditure incurred during the year that may be capitalised under statutory provision but does not result in the creation of a non-current asset has been charged as expenditure to the relevant service in the Comprehensive Income and Expenditure Statement.

If the Authority has determined to use capital resources to meet the cost (as opposed to funding from revenue), a transfer is done in the Movement in Reserves Statement, from the General Fund Balance to the Capital Adjustment Account so that there is no impact on the council tax.

## **2.24 Value Added Tax**

VAT is included in the accounts only to the extent that it is irrecoverable.

## **2.25 Fair Value Measurement**

The Council measures some of its non-financial assets such as investment properties at fair value at each reporting date. Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.

The fair value measurement assumes that the transaction to sell the asset or transfer the liability takes place either:

- in the principal market for the asset or liability, or
- in the absence of a principal market, in the most advantageous market for the asset or liability.

Valuations of non-financial assets are provided by Royal Institution of Chartered Surveyors (RICS)-qualified valuers, are on the basis recommended by CIPFA, and accord with the Statement of Asset Valuation Principles and Guidance Notes issued by the RICS.

The Council measures the fair value of an asset or liability using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest.

When measuring the fair value of a non-financial asset, the Council takes into account a market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use.

The Council uses valuation techniques that are appropriate in the circumstances and for which sufficient data is available, maximising the use of relevant observable inputs and minimising the use of unobservable inputs.

Inputs to the valuation techniques in respect of assets and liabilities for which fair value is measured or disclosed in the Council's financial statements are categorised within the fair value hierarchy, as follows:

- Level 1 - quoted prices (unadjusted) in active markets for identical assets or liabilities that the Council can access at the measurement date
- Level 2 - inputs other than quoted prices included within Level 1 that are observable for that asset or liability, either directly or indirectly
- Level 3 - unobservable inputs for the asset or liability

### **3 ACCOUNTING STANDARDS THAT HAVE BEEN ISSUED BUT HAVE NOT YET BEEN ADOPTED**

The 2018/19 Code requires changes in accounting policy to be applied retrospectively unless alternative transitional arrangements are specified in the Code. The Code requires an authority to disclose information relating to the impact of an accounting change that will be required by a new standard that has been issued but not yet adopted by the Code for the relevant financial year.

The standards that may be relevant for additional disclosures that will be required in the 2018/19 and 2019/20 financial statements in respect of accounting changes that are introduced in the 2019/20 Code are:

- amendments to IAS 40 Investment Property in respect of transfers of Investment Property,
- annual improvements to IFRS Standards 2014-2016 Cycle,
- IFRIC 22 Foreign Currency Transactions and Advance Consideration,
- IFRIC 23 Uncertainty over Income Tax Treatments, and
- amendments to IFRS 9 Financial Instruments in respect of prepayment features with negative compensation.

The Council does not anticipate that the above amendments will have a material impact on the information provided in the financial statements.

### **4 CRITICAL JUDGEMENTS IN APPLYING ACCOUNTING POLICIES**

In applying the accounting policies set out in Note 2, the Authority has made certain judgements about complex transactions or those involving uncertainty about future events. The critical judgements made in the Statement of Accounts are:

- There is a high degree of uncertainty about future levels of funding for local government. However, the Authority has determined that this uncertainty is not yet sufficient to provide an indication that its assets might be impaired as a result of a need to close facilities or to reduce levels of service expenditure.
- Judgement has been applied in accounting for the leasing by the Council to tenants of offices, industrial units and sites, and retail units in Market Walk Shopping Centre as operating leases. The Code defines operating leases as a lease other than a finance lease; whereas a finance lease transfers substantially all the risks and rewards incidental to ownership of an asset, potentially including title. The accounts have been prepared by applying the judgement that ownership of such leased assets would not transfer to the lessees.
- The Authority does not consider that the preparation of group accounts is required.

**5 ASSUMPTIONS ABOUT THE FUTURE AND OTHER MAJOR SOURCES OF ESTIMATION UNCERTAINTY**

The Statement of Accounts contains figures estimated on the basis of historical experience, current trends and other relevant factors. The following table notes items for which there is a significant risk of material future adjustment:

Item	Uncertainty	Effect if actual results differ
Pensions liability	The estimated liabilities depend on a number of complex judgements. These include future retirement ages, mortality rates, salary increases, returns on investments and discount rates. A firm of consulting actuaries is engaged to provide advice on these assumptions.	Sensitivity to the factors contributing to this estimate is shown in Note 38j. Small changes have major impacts on the pension deficit.
Debtors	Note 20 shows total debtors of £5.645m, of this figure £1.391m relates to uncollected housing benefit overpayments. Changes in the administration of benefits are pending which may affect recovery in future years. The provision made for these debts has therefore been maintained at 70% to reflect this.	Any additional impairment will be a charge to the Comprehensive Income and Expenditure Statement.
Asset valuations	<p>Note 15 shows that fixed assets valued at £99m are carried at either fair value or current value. The valuations have been carried out by qualified valuers in accordance with Royal Institution of Chartered Surveyors Guidance.</p> <p>Assets subject to review had a valuation date of 31st March 2015 or earlier. The council also revalued the Market Walk Shopping Centre as the asset was valued at £20.4m at the end of 17/18 and therefore represented a large proportion of the council's total asset portfolio. The shopping centre's existing use value was reduced to £18.5m in 2018/19 reflecting changes in the retail market and a number of leases that remain under review.</p>	<p>The values are only estimates and thus could over or understate the actual values realisable if sale actually occurred.</p> <p>A fall in the value of the council's investment properties will result in a charge to the CIES. Every 10% fall in the total value of the council's investment properties would result in a £88k charge to the CIES.</p>
Provisions	The Authority has made a provision of £1.180m for its share of the cost of backdated appeals against overcharging of business rates. The estimate has been calculated using the Valuation Office Agency (VOA) ratings list of appeals and the analysis of successful appeals to date when providing the estimate of total provision up to and including 31 March 2019. See note 24.	If the value of successful appeals exceeded the provision there would be a reduction in the local share of business rates income available to fund the Authority's services.
Fair value measurements	When the fair values of financial assets and financial liabilities cannot be measured based on quoted prices in active markets (i.e. Level 1 inputs), their fair value is measured using valuation techniques (e.g. quoted prices for similar assets or liabilities in active markets). Where possible, the inputs to these valuation techniques are based on observable data, but where this is not possible	The Council uses the market approach to value of some of its investment properties and financial assets. The unobservable inputs used in the fair value measurement include management

	<p>judgement is required in establishing fair values. These judgements typically include considerations such as uncertainty and risk. However, changes in the assumptions used could affect the fair value of the Council's assets and liabilities. Where Level 1 inputs are not available, the Council employs relevant experts to identify the most appropriate valuation techniques to determine fair value (for example for investment properties, the Council's Senior Valuer). Information about the valuation techniques and inputs used in determining the fair value of the Council's assets and liabilities are disclosed in note 2 and note 19.</p>	<p>assumptions regarding rent yield and growth, vacancy levels (for investment properties). Significant changes in any of the unobservable inputs would result in a lower or higher fair value measurement for the investment properties and financial assets.</p>
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**6 MATERIAL ITEMS OF INCOME AND EXPENSE**

This note identifies material items of income and expenditure. For the purposes of this note the Council considers material items to be those greater than £1.104m.

**Valuation of Market Walk Shopping Centre**

The valuation of Market Walk Shopping Centre in 2018/19 resulted in a reduction in its existing use value from £20.4m to £18.5m. There is no impact of this revaluation on the General Fund and therefore no impact on the council tax payer, the revaluation is charged to the Revaluation Reserve. The revaluation takes into consideration the slow-down in the retail industry as well as several rent reviews within the shopping centre that are still outstanding. It is anticipated that the future extension of the shopping centre will benefit the existing Market Walk and therefore may lead to an improvement in rents and future valuations.

**7 EVENTS AFTER THE REPORTING PERIOD**

The unaudited Statement of Accounts was authorised for issue by the Chief Finance Officer on 31 July 2019.

Subsequent events are not reflected in the financial statements or in the notes. Where events taking place before this date provided information about conditions existing at 31 March 2019, the figures in the financial statements and notes have been adjusted in all material respects to reflect the impact of this information.

There are no non-adjusting events after the Balance Sheet date.

**8 NOTE TO THE EXPENDITURE AND FUNDING ANALYSIS**

The Expenditure and Funding Analysis (note 1) is presented on page 42.

This note provides a reconciliation of the main adjustments to the Net Expenditure Chargeable to the General Fund Balance to arrive at the amounts in the Comprehensive Income and Expenditure Statement. The relevant transfers between reserves are explained in the Movement in Reserves Statement.

**Adjustments for Capital Purposes**

This column adds in depreciation and impairment and revaluation gains and losses in the services line, and for:

**Other operating expenditure** – adjusts for capital disposals with a transfer of income on disposal of assets and the amounts written off for those assets.

**Financing and investment income and expenditure** – the statutory charges for capital financing i.e. Minimum Revenue Provision and other revenue contributions are deducted from other income and expenditure as these are not chargeable under generally accepted accounting practices.

**Taxation and non-specific grant income and expenditure** – capital grants are adjusted for income not chargeable under generally accepted accounting practices. Revenue grants are adjusted from those receivable in the year to those receivable without conditions or for which conditions were satisfied throughout the year. The Taxation and Non Specific Grant Income and Expenditure line is credited with capital grants receivable in the year without conditions or for which conditions were satisfied in the year.

#### **Net Change for the Pensions Adjustments**

Net change for the removal of pension contributions and the addition of IAS 19 Employee Benefits pension related expenditure and income:

For **services** this represents the removal of the employer pension contributions made by the authority as allowed by statute and the replacement with current service costs and past service costs.

For **Financing and investment income and expenditure** - the net interest on the defined benefit liability is charged to the CI&ES.

#### **Other Differences**

Other differences between amounts debited/credited to the Comprehensive Income and Expenditure Statement and amounts payable/receivable to be recognised under statute:

The charge under **Taxation and non-specific grant income and expenditure** represents the difference between what is chargeable under statutory regulations for council tax and NDR that was projected to be received at the start of the year and the income recognised under generally accepted accounting practices in the Code. This is a timing difference as any difference will be brought forward in future Surpluses or Deficits on the Collection Fund.

	Adjustments between Funding and Accounting Basis 2018/19			
Adjustments from General Fund to arrive at the Comprehensive Income and Expenditure Statement amounts	Adjustments for Capital Purposes £'000	Net change for Pensions Adjustments £'000	Other Differences £'000	Total Adjustments £'000
Customer & Digital	951	32	13	996
Policy & Governance	103	25	2	130
Early Intervention	702	15	(1)	716
Business Development & Growth	1,889	11	(3)	1,897
Budgets Excluded from Directorate Monitoring				
- Pensions-related	0	219	0	219
- Housing Benefits/Council Tax Discounts	0	0	0	0
- Market Walk (excluding financing costs)	1,921	1	1	1,923
- Other expenditure	0	0	0	0
<b>Net Cost of Services</b>	<b>5,566</b>	<b>303</b>	<b>12</b>	<b>5,881</b>
Other Income and Expenditure from the Expenditure and Funding Analysis	(14,827)	1,154	(366)	(14,039)
<b>Difference between General Fund surplus or deficit and Comprehensive Income and Expenditure Statement Surplus or Deficit on the Provision of Services</b>	<b>(9,261)</b>	<b>1,457</b>	<b>(354)</b>	<b>(8,158)</b>

	Adjustments between Funding and Accounting Basis 2017/18			
	Adjustments for Capital Purposes £'000	Net change for Pensions Adjustments £'000	Other Differences £'000	Total Adjustments £'000
<b>Adjustments from General Fund to arrive at the Comprehensive Income and Expenditure Statement amounts</b>				
Customer & Digital	696	96	(6)	786
Policy & Governance	34	67	9	110
Early Intervention	866	38	0	904
Business Development & Growth	2,684	24	(1)	2,707
Budgets Excluded from Directorate Monitoring	0	0	0	0
- Pensions-related	0	368	0	368
- Housing Benefits/Council Tax Discounts	0	0	0	0
- Market Walk (excluding financing costs)	524	1	0	525
- Other expenditure	0	0	0	0
<b>Net Cost of Services</b>	<b>4,804</b>	<b>594</b>	<b>2</b>	<b>5,400</b>
Other Income and Expenditure from the Expenditure and Funding Analysis	(8,155)	1,226	(16)	(6,945)
<b>Difference between General Fund surplus or deficit and Comprehensive Income and Expenditure Statement Surplus or Deficit on the Provision of Services</b>	<b>(3,351)</b>	<b>1,820</b>	<b>(14)</b>	<b>(1,545)</b>

**9 EXPENDITURE AND INCOME ANALYSED BY NATURE**

The authority's expenditure and income is analysed as follows

	<b>2017/18 £'000</b>	<b>2018/19 £'000</b>
<b>Expenditure/Income</b>		
<b>Expenditure</b>		
Employee benefits expenses	12,386	12,438
Other service expenses	38,694	37,117
Depreciation, amortisation, impairment	4,144	4,606
Interest payments	3,926	4,072
Precepts, tariffs and levies	6,801	7,007
Loss on the disposal of assets	3,064	13
<b>Total expenditure</b>	<b>69,015</b>	<b>65,253</b>
<b>Income</b>		
Fees, charges and other service income	(8,457)	(8,406)
Interest and investment income	(2,390)	(2,566)
Income from council tax and non-domestic rates	(16,685)	(17,179)
Government grants and contributions	(32,521)	(34,208)
Other grants and contributions	(9,548)	(8,805)
Gain on the disposal of assets	(2,813)	0
<b>Total income</b>	<b>(72,414)</b>	<b>(71,163)</b>
<b>Surplus or Deficit on the Provision of Services</b>	<b>(3,399)</b>	<b>(5,910)</b>

## 10 ADJUSTMENTS BETWEEN ACCOUNTING BASIS AND FUNDING BASIS UNDER REGULATIONS

This note details the adjustments that are made to the total comprehensive income and expenditure recognised by the authority in the year in accordance with proper accounting practice to arrive at the resources that are specified by statutory provisions as being available to the authority to meet future capital and revenue expenditure.

2018/19	Usable Reserves			Unusable Reserves £'000
	General Fund Balance £'000	Capital Receipts Reserve £'000	Capital Grants Unapplied £'000	
<b>Adjustments to the Revenue Resources</b> Amounts by which income and expenditure included in the Comprehensive Income and Expenditure Statement are different from revenue for the year calculated in accordance with statutory requirements				
Pensions costs (transferred to (or from) the Pensions Reserve)	(1,457)	0	0	1,457
Council Tax and NDR (transfers to or from Collection Fund Adjustment Account)	364	0	0	(364)
Holiday pay (transferred to the Accumulated Absences Reserve)	(10)	0	0	10
Reversal of entries included in the Surplus or Deficit on the Provision of Services in relation to capital expenditure (these items are charged to the Capital Adjustment Account)	6,479	0	(5,752)	(727)
<b>Total Adjustments to Revenue Resources</b>	<b>5,376</b>	<b>0</b>	<b>(5,752)</b>	<b>376</b>
<b>Adjustments between Revenue and Capital Resources</b> Transfer of non-current asset sale proceeds from revenue to the Capital Receipts Reserve	149	(149)	0	0
Statutory & voluntary provision for the repayment of debt (transfer from the Capital Adjustment Account)	542	0	0	(542)
Capital expenditure financed from revenue balances (transfer to the Capital Adjustment Account)	2,091	0	0	(2,091)
<b>Total Adjustments between Revenue and Capital Resources</b>	<b>2,782</b>	<b>(149)</b>	<b>0</b>	<b>(2,633)</b>
<b>Adjustments to Capital Resources</b> Use of the Capital Receipts Reserve to finance capital expenditure	0	577	0	(577)
Application of capital grants to finance capital expenditure	0	0	5,688	(5,688)
<b>Total Adjustments to Capital Resources</b>	<b>0</b>	<b>577</b>	<b>5,688</b>	<b>(6,265)</b>
<b>Total Adjustments</b>	<b>8,158</b>	<b>428</b>	<b>(64)</b>	<b>(8,522)</b>

2017/18	Usable Reserves			Unusable Reserves £'000
	General Fund Balance £'000	Capital Receipts Reserve £'000	Capital Grants Unapplied £'000	
<b>Adjustments to the Revenue Resources</b> Amounts by which income and expenditure included in the Comprehensive Income and Expenditure Statement are different from revenue for the year calculated in accordance with statutory requirements				
Pensions costs (transferred to (or from) the Pensions Reserve)	(1,821)	0	0	1,821
Council Tax and NDR (transfers to or from Collection Fund Adjustment Account)	16	0	0	(16)
Holiday pay (transferred to the Accumulated Absences Reserve)	(1)	0	0	1
Reversal of entries included in the Surplus or Deficit on the Provision of Services in relation to capital expenditure (these items are charged to the Capital Adjustment Account)	(997)	0	(5,588)	6,585
<b>Total Adjustments to Revenue Resources</b>	<b>(2,803)</b>	<b>0</b>	<b>(5,588)</b>	<b>8,391</b>
<b>Adjustments between Revenue and Capital Resources</b>				
Transfer of non-current asset sale proceeds from revenue to the Capital Receipts Reserve	2,813	(2,813)	0	0
Statutory provision for the repayment of debt (transfer from the Capital Adjustment Account)	487	2,270	0	(2,757)
Capital expenditure financed from revenue balances (transfer to the Capital Adjustment Account)	1,048	0	0	(1,048)
<b>Total Adjustments between Revenue and Capital Resources</b>	<b>4,348</b>	<b>(543)</b>	<b>0</b>	<b>(3,805)</b>
<b>Adjustments to Capital Resources</b>				
Use of the Capital Receipts Reserve to finance capital expenditure	0	280	0	(280)
Application of capital grants to finance capital expenditure	0	0	1,548	(1,548)
<b>Total Adjustments to Capital Resources</b>	<b>0</b>	<b>280</b>	<b>1,548</b>	<b>(1,828)</b>
<b>Total Adjustments</b>	<b>1,545</b>	<b>(263)</b>	<b>(4,040)</b>	<b>2,758</b>

The following sets out a description of the reserves that the adjustments are made against.

**General Fund Balance**

The General Fund is the statutory fund into which all the receipts of the Council are required to be paid, and out of which all liabilities of the Council are to be met, except to the extent that statutory rules might provide otherwise. These rules can also specify the financial year in which liabilities and payments should impact on the General Fund Balance, which is not necessarily in accordance with proper accounting practice. The General Fund Balance therefore summarises the resources that the Council is statutorily empowered to spend on its services or on capital investment (or the deficit of resources that the Council is required to recover) at the end of the financial year.

**Capital Receipts Reserve**

The Capital Receipts Reserve holds the proceeds from the disposal of land or other assets, which are restricted by statute from being used other than to fund new capital expenditure or to be set aside to finance historical capital expenditure. The balance on the reserve shows the resources that have yet to be applied for these purposes at the year-end.

**Capital Grants Unapplied**

The Capital Grants Unapplied Reserve holds the grants and contributions received towards capital projects for which the Council has met the conditions that would otherwise require repayment of the monies but which have yet to be applied to meet expenditure. The balance is restricted by grant terms as to the capital expenditure against which it can be applied and/or the financial year in which this can take place.

**11 TRANSFERS TO/FROM EARMARKED RESERVES**

The movements in reserves during the year were as follows

Type of Earmarked Reserve	Balance	Transfers		Balance	Transfers		Balance
	1 April 2017 £'000	Out £'000	(In) £'000	31 March 2018 £'000	Out £'000	(In) £'000	31 March 2019 £'000
Rephasing of planned expenditure	(1,342)	1,121	(1,000)	(1,221)	934	(531)	(818)
Rephasing of New Investment Projects	(1,464)	1,010	(1,040)	(1,494)	964	(608)	(1,139)
Grants reserved for specific expend.	(144)	50	(70)	(164)	59	(164)	(268)
Financing of capital expenditure	(2,725)	539	(516)	(2,702)	1,653	(441)	(1,490)
Planning purposes including appeals	(104)	156	(272)	(220)	157	(185)	(249)
Restructuring of services	(53)	241	(600)	(412)	260	(162)	(314)
Retail Investment	(112)	111	(114)	(115)	18	0	(97)
Apprenticeships and Graduates	(64)	12	0	(52)	0	(71)	(123)
Resource equalisation	(877)	0	(237)	(1,114)	371	(290)	(1,033)
Maintenance of Council buildings	(209)	74	(360)	(495)	239	(142)	(398)
Maintenance of Grounds	(29)	25	(10)	(14)	0	(10)	(24)
Elections	0	0	(90)	(90)	29	0	(61)
Other	(157)	39	(111)	(229)	186	(16)	(60)
<b>Total</b>	<b>(7,280)</b>	<b>3,378</b>	<b>(4,420)</b>	<b>(8,322)</b>	<b>4,869</b>	<b>(2,621)</b>	<b>(6,075)</b>

**Purpose of Earmarked Reserves**

- **Rephasing of planned expenditure** – there are a number of directorate initiatives which span more than one financial year or for which funds have been budgeted but not yet started. These reserves will ensure that such initiatives can be completed. They include ICT projects and infrastructure £108k, slippage from 2018/19 and earlier years £319k, Highways & Transport Strategy £90k, transformation challenge and public service reform £61k and neighbourhood working £88k.
- **Rephasing Investment Projects** – there are a number of specific investment packages included in the Council's annual revenue budget aimed at delivering corporate priorities. As delivery on these schemes will be made over more than one year, these reserves enable unspent balances to be carried forward to future years. They include investment budgets carried forward to 2019/20 £548k and an investment fund for realising income generation £585k.
- **Grants reserved for specific expenditure** – this represents income from government grants received which have no conditions attached or where no expenditure has yet been incurred.
- **Financing of capital expenditure** – In 2018/19 £1.8m was utilised from reserves to fund the capital programme. The majority, £1.5m, was used part-fund elements of the Market Walk Extension programme including the additional car parking at Friday Street, Park Road and Arley Street. £80k of reserves were used to part-fund the works to Coronation and Harpers Recreation Grounds and £170k was utilised to fund the investment in ICT projects. Despite this investment there remains £1.5m in reserves to fund future capital investment including play and open space, additional CCTV and improvements to the council's cemeteries.

- **Planning purposes including appeals** – this reserve has been established to mitigate future costs of planning appeals.
- **Restructuring of services** – this reserve is provided to support the one-off staffing cost implications of service transformation programmes.
- **Retail Investment** – this reserve represents the council’s investment in the borough through the Retail Grants Programme which provides specific funding for local businesses in the form of refurbishment grants and business rate subsidy.
- **Apprenticeships for young people** – this reserve provides funding over a two year period for apprenticeships within the Customer Transformation service.
- **Resource equalisation** – this represents the Business Rates Retention reserve £643k and Market Walk income equalisation reserve £390k established to minimise the risk of fluctuations in future income levels from Business Rates and the Council owned shopping precinct.
- **Maintenance of Council buildings** – this reserve has been established to provide funding for future asset improvement works in relation to the council owned Market Walk retail precinct and other Council properties.
- **Maintenance of Grounds** - this reserve provides for future investment in the council’s parks and open spaces.
- **Elections** – this has been established to equalise the costs of holding local elections over the Council’s four year election cycle.
- **Other** – this represents other balances set aside in reserves to mitigate the impact of various issues including potential future bad debts on Council Tax Summons/Liability Orders and changes in the Council’s pay policy.

## 12 OTHER OPERATING EXPENDITURE

2017/18 £'000		2018/19 £'000
643	Parish council precepts	671
3,064	(Gains)/losses on disposal of non-current assets	162
(249)	Capital receipts from the sale of previously transferred housing stock	(98)
(2,564)	Other capital receipts	(51)
<b>894</b>	<b>Total</b>	<b>684</b>

**13 FINANCING AND INVESTMENT INCOME AND EXPENDITURE**

<b>2017/18 £'000</b>		<b>2018/19 £'000</b>
414	Interest payable and similar charges	485
1,226	Net interest on the net defined benefit liability (asset)	1,153
(36)	Interest receivable and similar income	(65)
(67)	Income and Expenditure in relation to investment properties and changes in their fair value	(65)
<b>1,537</b>	<b>Total</b>	<b>1,508</b>

**14 TAXATION AND NON-SPECIFIC GRANT INCOME & EXPENDITURE**

<b>2017/18 £'000</b>		<b>2018/19 £'000</b>
(7,233)	Council tax income	(7,586)
(3,294)	Non-domestic rates income and expenditure	(3,257)
(5,951)	Non ring-fenced government grants (Note 36)	(4,625)
(7,074)	Capital grants and contributions (Note 36)	(12,357)
<b>(23,552)</b>	<b>Total</b>	<b>(27,825)</b>

**14(a) LANCASHIRE BUSINESS RATES POOL**

This council is part of the Lancashire Business Rates Pool which began on 1 April 2016. In a Business Rate Pool, tariffs, top-ups, levies and safety nets can be combined. This can result in a significantly lower levy rate or even a zero levy rate meaning that more or all of the business rate growth can be retained within the pool area instead of being payable to the Government.

The Lancashire Business Rates Pool, which includes most but not all of the local authorities in Lancashire, has been designated by the Secretary of State for Housing, Communities and Local Government and the retained levy in Lancashire has been distributed as follows:

- Lancashire County Council is paid 10% of the overall retained levy;
- Each district within the pool retains 90% of their levy.

With regard to this council, the total retained levy is £798,029 (£843,563 in 2017/18), hence under pooling we have benefited from extra income of £718,226 (£759,207 in 2017/18). Lancashire County Council has received the remaining 10% of retained levy.

As part of the pool arrangements, one authority must be designated as lead authority, which in the case of the Lancashire Business Rates Pool is Ribble Valley Borough Council. As part of this arrangement a total fee of £20,000 is payable, charged equally to all members of the pool to Ribble Valley Borough Council in their role as lead.

In the Lancashire Business Rates Pool each council bears its own risk and takes its own reward under the pool agreement, i.e. no sharing of a volatility reserve.

Below is a summary of the Lancashire Business Rates Pool members and relevant transactions.

Lancashire Business Rates Pool Members 2018/19	Authority Type	10% Retained Levy payable to / receivable by LCC			
		Tariffs and Top-ups 2018/19 £	Retained Levy on Growth 2018/19 £	Net Retained Levy 2018/19 £	Net Retained Levy 2018/19 £
Burnley Borough Council	Tariff	5,813,386	(779,370)	77,937	(701,433)
Chorley Borough Council	Tariff	6,255,602	(798,029)	79,803	(718,226)
Fylde Borough Council	Tariff	7,792,807	(640,137)	64,014	(576,123)
Hyndburn Borough Council	Tariff	3,817,977	(554,502)	55,450	(499,052)
Pendle Borough Council	Tariff	3,259,593	(355,927)	35,593	(320,334)
Ribble Valley Borough Council	Tariff	4,147,262	(725,653)	72,565	(653,088)
Rossendale Borough Council	Tariff	2,610,199	(603,452)	60,345	(543,107)
South Ribble Borough Council	Tariff	9,933,983	(1,190,680)	119,068	(1,071,612)
West Lancashire Borough Council	Tariff	8,367,158	(889,169)	88,917	(800,252)
Wyre Borough Council	Tariff	6,577,163	(608,534)	60,853	(547,681)
Lancashire County Council (LCC)	Top-up	(152,078,891)	0	(714,545)	(714,545)
<b>Pool Total</b>		(93,503,761)	(7,145,453)	0	(7,145,453)
Central Government		93,503,761	0	0	0
<b>Total</b>		<b>0</b>	<b>(7,145,453)</b>	<b>0</b>	<b>(7,145,453)</b>

*Pool membership in 2017/18 did not include Burnley Borough Council*

The Net Retained Levy for the council is shown within Business Rates Retention income on the Comprehensive Income and Expenditure Statement, along with the council's own share of growth achieved in the year.

## 15 PROPERTY PLANT AND EQUIPMENT

	Other land & Buildings £'000	Vehicles & Plant & etc. £'000	Infra- structure £'000	Community Assets £'000	Surplus Assets £'000	Assets under construction £'000	Total £'000
<b><u>Cost or valuation</u></b>							
<b>At 1 April 2018</b>	<b>64,178</b>	<b>5,668</b>	<b>563</b>	<b>3,761</b>	<b>473</b>	<b>7,022</b>	<b>81,665</b>
Additions	3,523	469	22	132	0	18,183	<b>22,329</b>
Donations	0	0	0	0	0	0	<b>0</b>
Revaluations recognised in Revaluation Reserve	(483)	0	0	0	0	0	<b>(483)</b>
Revaluation increases/ (decreases) recognised in the Surplus/Deficit on the Provision of Services	(3,754)	0	0	(61)	0	0	<b>(3,815)</b>
De-recognition – disposals	0	(195)	0	0	0	0	<b>(195)</b>
De-recognition – other	(194)	(99)	0	0	0	0	<b>(293)</b>
Assets reclassified within PPE	0	0	0	0	0	0	<b>0</b>
Assets reclassified (to)/from Investment Properties	0	0	0	0	0	0	<b>0</b>
Assets reclassified (to)/from Assets Held for Sale	0	0	0	0	0	0	<b>0</b>
Prior Year Adjustment reclassified as REFCUS	0	0	0	0	0	(166)	<b>(166)</b>
<b>At 31 March 2019</b>	<b>63,270</b>	<b>5,843</b>	<b>585</b>	<b>3,832</b>	<b>473</b>	<b>25,039</b>	<b>99,042</b>
<b><u>Depreciation and Impairment</u></b>							
<b>At 1 April 2018</b>	<b>(2,494)</b>	<b>(3,563)</b>	<b>(356)</b>	<b>(995)</b>	<b>0</b>	<b>0</b>	<b>(7,408)</b>
Depreciation charge	(1,270)	(276)	(20)	(127)	0	0	<b>(1,693)</b>
Depreciation written out of Revaluation Reserve	439	0	0	0	0	0	<b>439</b>
Depreciation written out to the Surplus/Deficit on the Provision of Services	713	0	0	3	0	0	<b>716</b>
Impairment (losses)/reversals recognised in the Surplus/Deficit on the Provision of Services	200	0	0	0	0	0	<b>200</b>
De-recognition – disposals	0	195	0	0	0	0	<b>195</b>
De-recognition – other	38	94	0	0	0	0	<b>132</b>
Other movements in depreciation and impairment	0	(1)	0	0	0	0	<b>(1)</b>
<b>At 31 March 2019</b>	<b>(2,374)</b>	<b>(3,551)</b>	<b>(376)</b>	<b>(1,119)</b>	<b>0</b>	<b>0</b>	<b>(7,420)</b>
<b><u>Net Book Value</u></b>							
<b>At 31 March 2019</b>	<b>60,896</b>	<b>2,293</b>	<b>209</b>	<b>2,713</b>	<b>473</b>	<b>25,039</b>	<b>91,622</b>

<b>Comparative Movements in 2017/18</b>	<b>Other land &amp; Buildings £'000</b>	<b>Vehicles &amp; Plant etc. £'000</b>	<b>Infra-structure £'000</b>	<b>Community Assets £'000</b>	<b>Surplus Assets £'000</b>	<b>Assets under construction £'000</b>	<b>Total £'000</b>
<b><u>Cost or valuation</u></b>							
<b>At 1 April 2017</b>	<b>65,323</b>	<b>5,144</b>	<b>563</b>	<b>3,280</b>	<b>847</b>	<b>765</b>	<b>75,922</b>
Additions	782	729	0	261	0	6,586	<b>8,358</b>
Revaluations recognised in Revaluation Reserve	949	0	0	0	0	0	<b>949</b>
Revaluation increases/ (decreases) recognised in the Surplus/Deficit on the Provision of Services	(2,987)	0	0	0	0	0	<b>(2,987)</b>
De-recognition – disposals	0	(72)	0	0	0	0	<b>(72)</b>
De-recognition – other	0	(133)	0	0	(390)	0	<b>(523)</b>
Assets reclassified within PPE	111	0	0	220	(2)	(329)	<b>0</b>
Assets reclassified (to)/from Investment Properties	0	0	0	0	0	0	<b>0</b>
Assets reclassified (to)/from Assets Held for Sale	0	0	0	0	18	0	<b>18</b>
<b>At 31 March 2018</b>	<b>64,178</b>	<b>5,668</b>	<b>563</b>	<b>3,761</b>	<b>473</b>	<b>7,022</b>	<b>81,665</b>
<b><u>Depreciation and Impairment</u></b>							
<b>At 1 April 2017</b>	<b>(3,429)</b>	<b>(3,367)</b>	<b>(337)</b>	<b>(870)</b>	<b>0</b>	<b>0</b>	<b>(8,003)</b>
Depreciation charge	(1,235)	(343)	(19)	(126)	0	0	<b>(1,723)</b>
Depreciation written out to the Revaluation Reserve	1,559	0	0	1	0	0	<b>1,560</b>
Depreciation written out to the Surplus/Deficit on the Provision of Services	613	0	0	0	0	0	<b>613</b>
De-recognition – disposals	0	14	0	0	0	0	<b>14</b>
De-recognition – other	0	133	0	0	0	0	<b>133</b>
Other movements in depreciation and Impairment	(2)	0	0	0	0	0	<b>(2)</b>
<b>At 31 March 2018</b>	<b>(2,494)</b>	<b>(3,563)</b>	<b>(356)</b>	<b>(995)</b>	<b>0</b>	<b>0</b>	<b>(7,408)</b>
<b><u>Net Book Value</u></b>							
<b>At 31 March 2018</b>	<b>61,684</b>	<b>2,105</b>	<b>207</b>	<b>2,766</b>	<b>473</b>	<b>7,022</b>	<b>74,257</b>

## Fixed Assets Valuations

During 2018/19 the valuations were carried out by the District Valuer's RICS-qualified Surveyors. The basis of valuation is set out in the Accounting Policies note.

	Other land & Buildings £'000	Vehicles & Plant etc. £'000	Infra-structure £'000	Community Assets £'000	Surplus Assets £'000	Assets under Construction £'000	Total £'000
<b>Carried at historical cost</b>	<b>5,221</b>	<b>5,843</b>	<b>585</b>	<b>3,582</b>	<b>0</b>	<b>25,039</b>	<b>40,270</b>
Valued at fair value as at:							
31 March 2019	26,076	0	0	5	11	0	<b>26,092</b>
31 March 2018	16,184	0	0	26	230	0	<b>16,440</b>
31 March 2017	4,479	0	0	0	214	0	<b>4,693</b>
31 March 2016	7,889	0	0	0	18	0	<b>7,907</b>
31 March 2015	3,421	0	0	219	0	0	<b>3,640</b>
<b>Total cost or valuation</b>	<b>63,270</b>	<b>5,843</b>	<b>585</b>	<b>3,832</b>	<b>473</b>	<b>25,039</b>	<b>99,042</b>

The Authority has considered whether the carrying value of PPE assets that have not been revalued in the year is materially different to fair value. In revaluing assets during 2018/19. In revaluing assets during 2018/19, the Council's Surveyor has considered the effect any significant movement in the value of revalued assets on the remaining assets not scheduled for revaluation, and has confirmed that no further adjustments are required.

## Capital Commitments

At 31 March 2019, the authority has entered into a number of contracts for the construction or enhancement of property, plant and equipment in 2018/19 and future years budgeted to cost £5.838m. The major commitments are:

Extension to Market Walk Shopping Centre – £5.594m  
Strawberry Fields Digital Office Park – £0.244m

## Impairment Losses

During 2018/19, the authority has recognised a reversal of impairment loss of £200k in relation to windows at Chorley Town Hall Lancastrian suite. Since the initial impairment the windows were all replaced and refurbished and so the impairment has been reversed, classified as other land and buildings, through the CIES.

The reversal of the impairment loss has been credited to the Policy and Governance line in the Comprehensive Income and Expenditure Statement.

The recoverable amount of the Town Hall has been measured at Existing Use Value (EUV). The comparable method of valuation was used to arrive at the EUV for this asset. The inputs used took the form of analysed and weighted market evidence such as sales, rentals and yields in respect of comparable properties in similar locations on or around the valuation date. The inputs are all considered to be Level 2 inputs which are observable but indirect comparables.

## Material Items of Expenditure

During 2018/19 the authority made additions to PPE assets of £22.329m which is comparatively higher than the figure from 2017/18 of £8.358m.

The additions are mainly within the Assets Under Construction classification with the main expenditure attributable to the following projects:

- Market Walk Extension - £5.052m
- Strawberry Fields Digital Office Park - £6.579m
- Primrose Gardens Extra Care Facility - £6.515m
- West Way Playing Fields - £0.037m

There was also significant expenditure on existing council assets as part of the programme to provide additional town centre parking:

- Friday Street decked parking - £1.469m
- Cleveland Street car park - £0.401m

## 16 HERITAGE ASSETS

<b>Cost or Valuation</b>	<b>2017/18 £'000</b>	<b>2018/19 £'000</b>
As at 1 April	<b>2,394</b>	<b>2,452</b>
Additions	24	0
Donations	21	0
Revaluations recognised in Revaluation Reserve	80	78
Disposals	(43)	0
Revaluations recognised in CI&ES	(24)	0
<b>As at 31 March</b>	<b>2,452</b>	<b>2,530</b>

### HERITAGE ASSETS – FIVE YEAR SUMMARY OF TRANSACTIONS

There were two disposals and no acquisitions during the five years 2013/14 to 2018/19. An asset already held by the authority was recognised as a donated heritage asset during 2017/18 and revalued accordingly.

### HERITAGE ASSETS – FURTHER INFORMATION

The assets included within Heritage assets are as follows:

#### **Civic Regalia**

This mainly consists of mayoral badges, chains of office, and other regalia used in civic activities. It was last re-valued in 2016.

#### **Astley Hall**

The house was built in the mid-seventeenth century, and extended in 1825. It was given to Chorley Council in 1922 as a memorial following the First World War. It houses a collection of paintings and furniture and has accredited museum status awarded by the Arts Council. The house is valued using the depreciated cost method of valuation. Following a detailed condition survey in 2010/11, its value was reduced to a nominal £1 to reflect the substantial repair liability.

### Astley Hall furniture and art collection

A large part of the collection was gifted to the Council with the house, but it has been added to buy gifts and purchases in the following years. The collection consists of numerous minor works of art and furniture. It is included in the statement of accounts at the 2019 insurance value of £1.840m.

### Astley Park Entrance

Astley Park was given, along with the Hall, to Chorley Council in 1922 in memory of those who died in the Great War. After this transfer the arch, formerly of nearby Gillibrand Hall, was rebuilt as the main entrance, which it still serves as today. Close to the main gates and arch is a former drinking fountain, inscribed with the words "Erected by Ann Pollard AD 1861". It was included in the statement of accounts at the 2019 insurance value of £0.587m.

### Benjamin Disraeli Statue

The statue was formerly situated on a rooftop on the corner of Chapel Street and Cleveland Street on the building once known as Beaconsfield Buildings. The statue was erected in 1886, after his death in 1881, by the Primrose League who met in the room below. The statue was taken down and restored following problems with the roof and due to the prohibitive cost of returning it to its original position was donated to the council and is now located in the Walled Garden in Astley Park.

### Preservation and management

The Council has a ten year plan for the use and maintenance of the hall and contents. Periodic structural surveys are undertaken, the last during 2014/15. Additions and disposal of the collection is managed in accordance with The Acquisitions and Disposal Policy.

## 17 INVESTMENT PROPERTIES

The following items of income have been accounted for in the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement.

	2017/18 £'000	2018/19 £'000
Rental Income from investment property	67	67
Direct operating expenses arising from investment property	0	0
<b>Net gain/(loss)</b>	<b>67</b>	<b>67</b>

There are no restrictions on the Authority's ability to realise the value inherent in its investment property or its right to receipt of income or the proceeds of disposal. The authority has no contractual obligations to purchase, construct or develop investment property or repairs, maintenance or enhancement.

The assets are comprehensively re-valued every five years, and annually reviewed for any indications that changes in yields or void levels warrant a review of fair values. The following table summarises the movement in the fair value of these properties over the past years.

	2017/18 £'000	2018/19 £'000
Fair value at the start of the year	887	887
Disposals	0	0
Net gain/(loss) from fair value adjustments	0	(2)
Transfers: (To)/From Property, Plant and Equipment	0	0
<b>Value at year-end</b>	<b>887</b>	<b>885</b>

### Fair Value Hierarchy

All the Council's investment property portfolio has been assessed as Level 2 for valuation purposes.

### Transfers between Levels of the Fair Value Hierarchy

There were no transfers between Levels during the year.

### Valuation techniques used to determine Level 2 fair values for investment properties

The fair value for the investment properties has been measured using the market approach. The approach is described at paras B5 to B7 of IFRS 13; it uses prices and other relevant information generated by market transactions involving identical or comparable (i.e. similar) assets.

The inputs to this technique constitute **Level 2 inputs** in each instance. Level 2 inputs are inputs that are observable for the asset, either directly or indirectly. The inputs used took the form of analysed and weighted market evidence such as sales, rentals and yields in respect of comparable properties in the same or similar locations at or around the valuation date.

### Highest and Best Use of Investment Properties

In estimating the fair value of the Council's investment properties the highest and best use of the properties is the current use.

### Valuation Techniques

There has been no change in the valuation techniques used during the year for investment properties.

### Valuation Process for Investment Properties

The fair value of the council's investment property is measured annually at each reporting date. All valuations are carried out in accordance with the methodologies and bases set out in the professional standards of the Royal Institution of Chartered Surveyors (RICS).

**18 INTANGIBLE ASSETS**

The Authority accounts for its computer software as intangible assets, to the extent that the software is not an integral part of a particular IT system accounted for as part of the hardware item of Property, Plant and Equipment.

All software is given a finite useful life, based on assessments of the period that the software is expected to be of use to the Authority. Useful lives assigned to the major software suites used by the Authority are:

Asset Description	Amortisation Period
Website	3 years
Thin client implementation	7 years
Revenues & Benefits software	7 years

Amortisation is on a straight line basis. In 2018/19 the amortisation charge of £0.014m was charged principally to the Customer & Digital directorate.

The movements on Intangible Asset balances during the year are as follows:

	2017/18 £'000	2018/19 £'000
<b><u>Balance at the start of the year</u></b>		
Gross carrying amount	1,157	1,230
Accumulated amortisation	(1,141)	(1,160)
<b>Net carrying amount at year start</b>	<b>16</b>	<b>70</b>
<b><u>Movements in the year</u></b>		
Additions in year	74	8
Disposals in year	0	0
Amortisation in year	(20)	(14)
Amortisation in respect of disposals	0	0
<b>Net carrying amount at the year-end</b>	<b>70</b>	<b>64</b>

There are no significant contractual commitments, and no individual intangible assets the amortisation of which is materially significant to the Council.

**19 FINANCIAL INSTRUMENTS****19a Categories of Financial Instruments**

The following categories of Financial Instruments are carried in the Balance Sheet:

	Long-term		Current	
	31 March 2018 £'000	31 March 2019 £'000	31 March 2018 £'000	31 March 2019 £'000
<u>Investments</u>				
Cash in hand and at Bank, less Bank Overdraft (Note 21)	0	0	1,356	2,917
<u>Debtors</u>				
Loans and receivables	412	463	7,630	1,692
Debtors that are not Financial Instruments	0	0	1,987	3,953
<b>Total Debtors</b>	<b>412</b>	<b>463</b>	<b>9,617</b>	<b>5,645</b>
<u>Borrowings</u>				
Financial liabilities at amortised cost - Principal	(13,990)	(18,949)	(1,262)	(2,041)
Financial liabilities at amortised cost – Accrued Interest	0	0	(151)	(174)
	<b>(13,990)</b>	<b>(18,949)</b>	<b>(1,413)</b>	<b>(2,215)</b>
<u>Creditors</u>				
Financial liabilities carried at contract amount	(664)	(682)	(1,938)	(4,524)
Creditors that are not Financial Instruments	0		(4,053)	(4,468)
<b>Total Creditors</b>	<b>(664)</b>	<b>(682)</b>	<b>(5,991)</b>	<b>(8,992)</b>

There has been no reclassification of assets and no pledges of collateral have been made in the periods reported in these statements.

**19b Income, Expense, Gains and Losses**

The amounts charged in the Comprehensive Income and Expenditure Statement are as follows:

	2017/18			2018/19		
	Financial Liabilities at Amortised Cost £'000	Financial Assets Loans & Receivables £'000	Total £'000	Financial Liabilities at Amortised Cost £'000	Financial Assets Loans & Receivables £'000	Total £'000
Interest expenses	414	0	414	485	0	485
Impairment Reduction	2		2	2	0	2
	<b>416</b>	<b>0</b>	<b>416</b>	<b>487</b>	<b>0</b>	<b>487</b>
Interest income	0	(36)	(36)	(65)	0	(65)
<b>Total income</b>	<b>0</b>	<b>(36)</b>	<b>(36)</b>	<b>(65)</b>	<b>0</b>	<b>(65)</b>
<b>Net (gain)/loss for the year</b>			<b>378</b>			<b>422</b>

**19c Fair Values of Assets and Liabilities**

Financial liabilities and financial assets represented by loans and receivables and long term debtors and creditors are carried on the balance sheet at amortised cost. Their fair value can be assessed by calculating the present value of the cash flows that take place over the remaining life of the instruments (Level 2), using the following assumptions:

- For loans from the Public Works Loans Board (PWLB) payable, new borrowing rates from the PWLB have been applied to provide the fair value under PWLB debt redemption procedures. An additional note to the table sets out the alternative fair value measurement applying the premature repayment rates, highlighting the impact of the alternative valuation;
- For non-PWLB loans payable, PWLB prevailing market rates have been applied to provide the fair value under PWLB debt redemption procedures;
- No early repayment or impairment is recognised;
- Where an instrument has a maturity of less than 12 months or is a trade or other receivable the fair value is taken to be the carrying amount or the billed amount;
- The fair value of trade and other receivables is taken to be the invoiced or billed amount.

The fair values calculated are as follows:

Financial Liabilities	2017/18		2018/19	
	Carrying Amount £'000	Fair Value £'000	Carrying Amount £'000	Fair Value £'000
PWLB Debt	(15,403)	(16,951)	(20,164)	(22,211)
Short Term Borrowing	0	0	(1,000)	(1,000)
Short Term Creditors	(1,938)	(1,938)	(4,524)	(4,524)
Long Term Creditors	(664)	(664)	(682)	(682)
<b>Total Liabilities</b>	<b>(18,005)</b>	<b>(19,553)</b>	<b>(26,370)</b>	<b>(28,417)</b>

The fair value of the liabilities is greater than the carrying amount because the Council's portfolio of loans includes a number of fixed rate loans where the interest rate payable is higher than the rates available for similar loans in the market at the balance sheet date. This shows a notional future loss (based on economic conditions at 31 March 2019) arising from a commitment to pay interest to lenders above current market rates.

The fair value of Public Works Loan Board (PWLB) loans of £22.211m measures the economic effect of the terms agreed with the PWLB compared with estimates of the terms that would be offered for market transactions undertaken at the balance sheet date. The difference between the carrying amount and the fair value measures the additional interest that the authority will pay over the remaining terms of the loans under the agreements with the PWLB, against what would be paid if the loans were at the new borrowing rates from the PWLB.

The Authority has also calculated an exit price fair value for PWLB loans of £25.173m, which is calculated using early repayment discount rates. The Authority has no contractual obligation to pay these penalty costs and would not incur any additional cost if the loans run to their planned maturity date.

Financial Assets	2017/18		2018/19	
	Carrying Amount £'000	Fair Value £'000	Carrying Amount £'000	Fair Value £'000
Cash and Cash Equivalents	1,356	1,356	2,917	2,917
Short Term Debtors	7,630	7,630	1,692	1,692
Long Term Debtors	412	453	463	497
<b>Total Assets</b>	<b>9,398</b>	<b>9,439</b>	<b>5,072</b>	<b>5,106</b>

Short Term debtors and creditors are carried at cost as this is a fair approximation of their value.

## NATURE AND EXTENT OF RISKS ARISING FROM FINANCIAL INSTRUMENTS

### Key risks

The authority's activities potentially expose it to a variety of financial risks:

- Credit risk – the possibility that other parties might fail to pay amounts due to the Council;
- Liquidity risk – the possibility that the Council might not have funds available to meet its commitments to make payments;
- Market risk – the possibility that financial loss might arise for the Council as a result of changes in interest rates.

## **Overall procedures for managing risk**

The authority's overall risk management programme focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the resources available to fund services.

Risk management is carried out by the financial accounts team, under policies approved by the council in the annual treasury management strategy. The council provides written principles for overall risk management, as well as written policies covering specific areas, such as interest rate risk, credit risk and the investment of surplus cash.

### **Credit risk**

Credit risk arises from deposits with banks and financial institutions, as well as credit exposures to the Council's customers.

This risk is minimised through the Annual Investment Strategy, which requires that deposits are not made with financial institutions unless they meet minimum creditworthiness criteria, provided by the council's treasury advisor Capita Asset Services. The creditworthiness service combines the credit ratings from all three ratings agencies (Fitch, Moody's and Standard & Poors) in a sophisticated modelling process. The Annual Investment Strategy also imposes a maximum amount and time to be invested with a financial institution located within each category.

The key areas of the Investment Strategy are as follows:

- The Council only lends to UK-incorporated financial institutions. This strategy does not therefore specify a minimum sovereign rating.
- The Council may use AAA rated Money Market Funds.
- The Council may lend to the UK Government (which includes the Debt Management Office), and UK Local Authorities.

### **Sundry Debtors**

Assessment of the expected credit loss on the outstanding balance of short-term debtors is made using a provision matrix based on the age of the outstanding debt and previous experience of recovery rates. At 31 March 2019, the outstanding gross amount was £3.379m (£11.243m at 31 March 2018) and the maximum exposure to credit loss was assessed as £1.687m (£3.613m at 31 March 2018).

Of the £5.938m reduction in net debtors, £5.910m was in respect of Community Infrastructure Levy (CIL) and S106 Contributions due from developers, and other capital grants, contributions and receipts, mainly following payment by the developers.

The risk of loss has been fully provided for. No collateral is held as security.

### **Liquidity risk**

The Council manages its liquidity position through the risk management procedures above (the setting and approval of prudential indicators and the approval of the treasury and investment strategy reports), as well as through a comprehensive cash flow management system, as required by the CIPFA Code of Practice. This seeks to ensure that cash is available when needed.

The Council has ready access to borrowings from the money markets to cover any day to day cash flow requirements, and access to the Public Works Loans Board and money markets for

longer term funds. The Council is required to provide a balanced budget through the Local Government Finance Act 1992, which ensures sufficient monies are raised to cover annual expenditure.

Interest rates on its borrowings at 31 March 2019 vary between 0.80% and 4.34%, and the maturity analysis of its borrowing is as follows:

	<b>31 March 2018 £'000</b>	<b>31 March 2019 £'000</b>
Less than 1 year	1,413	1,215
Between 1 and 2 years	880	883
Between 2 and 5 years	2,220	2,641
More than 5 years	10,890	15,425
<b>Total</b>	<b>15,403</b>	<b>20,164</b>

### Market risk

**Interest rate risk** – The Council has limited exposure to interest rate movements on its borrowings and investments. Borrowings and short-term investments are not carried at fair value on the balance sheet, so nominal gains and losses on fixed rate borrowings and investments do not impact on the Comprehensive Income and Expenditure Statement. To mitigate risk the Council's annual Treasury Strategy reviews interest rate forecasts and fixes prudential indicators for fixed and variable interest rate exposure.

If all interest rates had been 1% higher (with all other variables held constant) the financial effect would have been as shown in the following table:

	<b>£'000</b>
Loss - Increase in interest payable on variable rate borrowings	0
Gain - Increase in interest receivable on variable rate investments	(68)
Gain - Impact on Comprehensive Income and Expenditure Statement	<b>(68)</b>
Gain - Decrease in fair value of fixed rate borrowing (no impact on Comprehensive Income & Expenditure Statement)	(2,440)

**Price risk** – The Council has no exposure to this risk, having no available for sale assets.

**Foreign Exchange Risk** – The Council has no material exposure to the risk of currency movements.

**20 DEBTORS**

	<b>31 March 2018 £'000</b>	<b>31 March 2019 £'000</b>
Trade Receivables	341	463
Prepayments	596	634
Other Receivables	12,743	6,651
<b>Gross Carrying Amount</b>	<b>13,680</b>	<b>7,748</b>
Less Bad Debt Provisions	(4,063)	(2,103)
<b>Net Carrying Amount</b>	<b>9,617</b>	<b>5,645</b>

**21 CASH AND CASH EQUIVALENTS**

The balance of Cash and Cash Equivalents is made up of the following elements:

	<b>31 March 2018 £'000</b>	<b>31 March 2019 £'000</b>
Cash held by the Authority	296	348
Bank current and call accounts	1,655	2,569
Bank Overdraft	(595)	0
<b>Total Cash and Cash Equivalents</b>	<b>1,356</b>	<b>2,917</b>

**22 ASSETS HELD FOR SALE**

	<b>2017/18 £'000</b>	<b>2018/19 £'000</b>
Balance outstanding at start of year	2,592	0
Assets newly classified as held for sale:		
Property, Plant and Equipment	0	0
Revaluation Losses	0	0
Revaluation Gains	0	0
Impairment Losses	0	0
Assets declassified as held for sale:		
Property, Plant and Equipment	(18)	0
Assets Sold	(2,574)	0
<b>Balance outstanding at year-end</b>	<b>0</b>	<b>0</b>

**23 SHORT TERM CREDITORS**

	<b>31 March 2018 £'000</b>	<b>31 March 2019 £'000</b>
Trade Payables	(1,670)	(3,784)
Other Payables	(4,321)	(5,208)
<b>Total</b>	<b>(5,991)</b>	<b>(8,992)</b>

Short term creditors have increased by £3m 2018/19. This is mostly the result of the outstanding payments relating to capital works completed in 2018/19 but not yet paid. £1.3m relates to accrued expenditure and retention for Market Walk Extension project and £1.2m relates to Primrose Gardens project.

**24 PROVISIONS**

The movements in provisions during the year were as follows

	<b>Balance</b>	<b>Movements</b>		<b>Balance</b>
	<b>31 March 2018 £'000</b>	<b>Used £'000</b>	<b>Added £'000</b>	<b>31 March 2019 £'000</b>
Municipal Mutual Insurance	(14)	0	0	(14)
Business rates appeals	(882)	367	(665)	(1,180)
<b>Total</b>	<b>(896)</b>	<b>367</b>	<b>(665)</b>	<b>(1,194)</b>

Municipal Mutual – This Company was the Council's insurer prior to it becoming insolvent in 1993. Under a Scheme of Arrangement the Council shares a liability with other Councils to pay back a part of settlements received if the insurer's ongoing liabilities exceed its assets.

Business Rates Appeals – This is held against the possibility of successful backdated appeals against Business Rates valuations. There is a high degree of uncertainty about the amount of any reduction granted, how far back it will apply, and when the appeal will be decided.

**25 USABLE RESERVES**

Movements in the Authority's usable reserves are detailed in the Movement in Reserves Statement (page 44). The purpose of General Fund Earmarked Reserves is detailed in Note 11.

	<b>31 March 2018 £'000</b>	<b>31 March 2019 £'000</b>
General Fund Working Balance	(4,000)	(4,000)
General Fund Earmarked Reserves	(8,322)	(6,075)
<b>Total General Fund Balance</b>	<b>(12,322)</b>	<b>(10,075)</b>
Capital Receipts Reserve	(1,499)	(1,071)
S106 Contributions from developers	(9,405)	(7,634)
Community Infrastructure Levy (CIL)	(4,283)	(6,288)
Other Capital Grants and Contributions	(278)	(108)
<b>Total Capital Grants and Contributions Unapplied</b>	<b>(13,966)</b>	<b>(14,030)</b>
<b>Total Usable Reserves at year-end</b>	<b>(27,787)</b>	<b>(25,176)</b>

**26 UNUSABLE RESERVES**

	<b>31 March 2018</b> <b>£'000</b>	<b>31 March 2019</b> <b>£'000</b>
Revaluation Reserve (Note 26a)	(10,467)	(10,172)
Capital Adjustment Account (Note 26b)	(26,611)	(36,566)
Deferred Capital Receipts Reserve (Note 26c)	(289)	(289)
Pensions Reserve (Note 26d)	45,239	45,997
Collection Fund Adjustment Account (Note 26e)	441	77
Accumulated Absences Account (Note 26f)	147	157
<b>Total Unusable Reserves at year-end</b>	<b>8,460</b>	<b>(796)</b>

**26a Revaluation Reserve**

The Revaluation Reserve holds the gains arising from increases in the valuation of Property, Plant and Equipment. The balance is reduced when assets with accumulated gains are:

- revalued downwards or impaired and the gains are lost
- used in the provision of services and the gains are consumed through depreciation, or
- disposed of and the gains are realised.

The Reserve holds only gains accumulated since 1 April 2007. Gains prior to that date were consolidated in the Capital Adjustment Account.

	<b>2017/18</b> <b>£'000</b>	<b>2018/19</b> <b>£'000</b>
<b>Balance at 1 April</b>	<b>(10,813)</b>	<b>(10,467)</b>
Upward revaluation of assets	(3,012)	(463)
Difference between fair value and historic cost depreciation	61	174
Downward revaluation and impairment not charged to the Comprehensive Income & Expenditure Statement	423	427
Accumulated gains/losses on assets sold or scrapped	2,874	157
<b>Balance at 31 March</b>	<b>(10,467)</b>	<b>(10,172)</b>

**26b Capital Adjustment Account**

This account contains the following:

- Sums set aside to finance capital expenditure
- Accumulated gains and losses on Investment Properties
- Revaluation gains on Property, Plant and Equipment accumulating prior to 1 April 2007
- The difference between the charges required by accounting practice for the amortisation of assets (depreciation and impairment) and the de-recognition of assets, and the capital charges required by statute.

	<b>2017/18 £'000</b>	<b>2018/19 £'000</b>
<b>Balance at 1 April</b>	<b>(24,629)</b>	<b>(26,611)</b>
<u>Reversal of items relating to capital expenditure debited or credited to the CI&amp;ES</u>		
Charges for depreciation & impairment of non-current assets	1,726	1,493
Revaluation losses on Property, Plant and Equipment	2,398	3,099
Amortisation of intangible assets	20	14
Revenue expenditure funded from capital under statute	2,937	2,711
Amounts of non-current assets written off on disposal or sale as part of the gain/loss on disposal to the CIES	3,064	162
	<b>10,145</b>	<b>7,479</b>
<u>Adjusting amounts written out of the Revaluation Reserve</u>		
Difference between fair value and historic cost depreciation	(61)	(174)
Accumulated gains/losses on assets sold or scrapped	(2,874)	(156)
	<b>(2,935)</b>	<b>(330)</b>
<i>Net written out amount of the cost of non-current assets consumed in the year</i>	7,210	7,149
<u>Capital financing applied in the year</u>		
Use of Capital Receipts Reserve to finance new capital expenditure	(280)	(576)
Capital grants & contributions credited to the CI&ES that have been applied to capital financing	(3,538)	(8,208)
Application of grants to capital financing from Capital Grants Unapplied	(1,548)	(5,688)
Statutory & voluntary provision for the repayment of debt	(2,757)	(542)
Capital expenditure charged to the General Fund Balance	(1,048)	(2,091)
	<b>(9,171)</b>	<b>(17,105)</b>
Movements in the market value of Investment Properties debited or credited to the CI&ES	0	2
Gain from recognition of donated assets credited to the CIES	(21)	0
<b>Balance at 31 March</b>	<b>(26,611)</b>	<b>(36,566)</b>

**26c Deferred Capital Receipts Reserve**

The Deferred Capital Receipts Reserve holds the gains recognised on the disposal of non-current assets but for which cash settlement has yet to take place. Under statutory arrangements, the authority does not treat these gains as usable for financing new capital expenditure until they are backed by cash receipts. When the deferred cash settlement eventually takes place, amounts are transferred to the Capital Receipts Reserve.

	2017/18 £'000	2018/19 £'000
<b>Balance at 1 April</b>	(289)	(289)
Transfer to Capital Receipts Reserve on receipt of cash	0	0
<b>Balance at 31 March</b>	(289)	(289)

**26d Pensions Reserve**

The Pensions Reserve absorbs the timing differences arising from the different arrangements for accounting for post-employment benefits and for funding benefits in accordance with statutory provisions. The authority accounts for post-employment benefits in the Comprehensive Income and Expenditure Statement as the benefits are earned by employees accruing years of service, updating the liabilities recognised to reflect inflation, changing assumptions and investment returns on any resources set aside to meet the costs. However, statutory arrangements require benefits earned to be financed as the authority makes employer's contributions to pension funds or eventually pays any pensions for which it is directly responsible. The debit balance on the Pensions Reserve therefore shows a substantial shortfall in the benefits earned by past and current employees and the resources the authority has set aside to meet them. The statutory arrangements will ensure that funding will have been set aside by the time the benefits come to be paid.

	2017/18 £'000	2018/19 £'000
<b>Balance at 1 April</b>	49,829	45,239
Remeasurement of the net defined benefit liability	(6,411)	(699)
Reversal of charges posted to the Comprehensive Income & Expenditure Statement	3,995	3,685
Employers contributions and direct payments to pensioners payable in the year	(2,174)	(2,228)
<b>Balance at 31 March</b>	45,239	45,997

**26e Collection Fund Adjustment Account**

This account manages the differences arising from the recognition of Council Tax and Business Rates income in the Comprehensive Income and Expenditure Statement as it falls due from Council Tax payers and Business Rates payers compared with the statutory arrangements for paying across amounts to the General Fund from the Collection Fund.

	2017/18 £'000	2018/19 £'000
<b>Balance at 1 April</b>	457	441
Amount by which council tax and non-domestic rates income credited to the Comprehensive Income and Expenditure Statement is different from council tax and non-domestic rates income calculated for the year in accordance with statutory requirements	(16)	(366)
<b>Balance at 31 March</b>	441	77

**26f Accumulated Absences Account**

The cost of compensated absences (e.g. leave entitlement) not taken by employees during the year of account, is charged to the Comprehensive Income and Expenditure Statement. Statutory arrangements require however that the impact on the General Fund Balance is neutralised by transfers to or from this account.

	2017/18 £'000	2018/19 £'000
<b>Balance at 1 April</b>	146	147
Settlement or cancellation of accrual made at the end of the preceding year	(146)	(147)
Amounts accrued at the end of the current year	147	158
Amount by which officer remuneration charged to the CI&ES on accruals basis differs from remuneration chargeable in year in accordance with statutory requirements	1	10
<b>Balance at 31 March</b>	147	157

**27 CASH FLOW STATEMENT – OPERATING ACTIVITIES**

The cash flows for operating activities include the following items:

	2017/18 £'000	2018/19 £'000
Interest received	47	66
Interest paid	(395)	(462)
	<b>(348)</b>	<b>(396)</b>

The surplus or deficit on the provision of services has been adjusted for the following non-cash movements:

<b>Note 27a: Non-cash movements</b>	<b>2017/18 £'000</b>	<b>2018/19 £'000</b>
Depreciation	1,726	1,693
Impairment and downward valuations	2,398	3,066
Amortisation	19	14
Increase/(decrease) in creditors	(244)	(97)
(Increase)/decrease in debtors	122	(44)
(Increase)/decrease in inventories	17	0
Movement in pension liability	1,821	1,457
Carrying amount of non-current assets and non-current assets held for sale, sold or derecognised	3,064	161
Other non-cash items charged to the net surplus or deficit on the provision of services	202	300
	<b>9,125</b>	<b>6,550</b>

The surplus or deficit on the provision of services has been adjusted for the following items that are investing and financing activities:

<b>Note 27b: Investing and financing activities</b>	<b>2017/18 £'000</b>	<b>2018/19 £'000</b>
Proceeds from the sale of property, plant and equipment, investment property and intangible assets	(2,813)	(148)
Any other items for which the cash effects are investing or financing cash flows	(9,127)	(13,960)
	<b>(11,940)</b>	<b>(14,108)</b>

## 28 CASH FLOW STATEMENT – INVESTING ACTIVITIES

The following items have been included within investing activities in the cash flow statement.

	<b>2017/18 £'000</b>	<b>2018/19 £'000</b>
Purchase of property, plant & equipment, investment property and intangible assets.	(8,705)	(20,169)
Other payments for investing activities	(23)	(57)
Proceeds from the sale of assets.	2,718	300
Other receipts from investing activities	8,489	16,426
<b>Net cash flows from investing activities</b>	<b>2,479</b>	<b>(3,500)</b>

**29 CASH FLOW STATEMENT – FINANCING ACTIVITIES**

The following have been included within financing activities in the cash flow statement.

	2017/18 £'000	2018/19 £'000
Cash receipts from short- and long-term borrowing	5,000	7,000
Repayments of short- and long-term borrowing	(8,285)	(1,261)
Other receipts from financing activities	575	970
<b>Net cash flows from financing activities</b>	<b>(2,710)</b>	<b>(6,709)</b>

**Reconciliation of Liabilities arising from Financing Activities**

	Financing cash flows			Other non- cash changes £'000	31 March 2019 £'000
	1 April 2018 £'000	Acquisitions £'000	Repayments £'000		
Long-term borrowing	13,990	6,000		(1,041)	18,949
Short-term borrowing	1,413	1,000	(1,261)	1,063	2,215
Total borrowing	15,403	7,000	(1,261)	22	21,164
Creditors - Council Tax & NNDR due to Preceptors & Central Government	1,991	970			2,961
<b>Total</b>	<b>17,394</b>	<b>7,970</b>	<b>(1,261)</b>	<b>22</b>	<b>24,125</b>

**30 MEMBERS ALLOWANCES**

	2017/18 £'000	2018/19 £'000
Allowances	295	310
Expenses	3	3
<b>Total</b>	<b>298</b>	<b>313</b>

### 31 OFFICERS REMUNERATION

Remuneration of Senior Employees was as follows:

Senior Employees Post Title	Year	Salary £'000	Expenses Allowance £'000	Benefit s in Kind £'000	Compensatio n for loss of Office £'000	Total Remuneratio n (excl. Pension contributions ) £'000	Pension Contributio n £'000	Total Remuneratio n (incl. Pension contributions ) £'000
Chief Executive	2018/19	105		5		110	15	125
Deputy Chief Executive/Director (Early Intervention and Support)	2018/19	82		10		91	12	103
Director (Policy and Governance)	2018/19	72		2		75	10	85
Director (Customer and Digital)	2018/19	69		5		75	10	85
Director (Business, Development and Growth)	2018/19	72		0		72	10	82
Head of Shared Financial Services (a)	2018/19	7		1	59	67	4	71
Head of Legal, Democratic and HR Services	2018/19	53		5		58	8	66

**Note a:** The cost of the Head of Shared Financial Services post is shared between Chorley and South Ribble Borough Councils. The post-holder left the authority on 13 May 2018. Both councils have covered this vacancy with internal acting up arrangements.

The Head of Shared Assurance post (which is not listed in the table above) was shared between South Ribble and Chorley Councils but the salary is paid through South Ribble Borough Council's payroll. The post was vacated on 2 November 2018 with temporary arrangements in place to cover the vacancy.

The comparative information for the preceding year is as follows:

Senior Employees Post Title	Year	Salary £'000	Expenses Allowanc e £'000	Benefit s in Kind £'000	Compensatio n for loss of Office £'000	Total Remuneratio n (excl. Pension contributions ) £'000	Pension Contributio n £'000	Total Remuneratio n (incl. Pension contributions ) £'000
Chief Executive	2017/18	103		3		106	15	121
Deputy Chief Executive/Director (Early Intervention and Support) (a)	2017/18	44		0	40	84	6	90
Deputy Chief Executive/Director (Early Intervention and Support) (b)	2017/18	41		5		46	6	52
Director (Policy and Governance) (b)	2017/18	32		4		36	5	41
Director (Policy and Governance) (c)	2017/18	37		2		39	5	44
Director (Customer and Digital)	2017/18	66		6		72	10	82
Director (Business, Development and Growth)	2017/18	71		0		71	10	81
Head of Shared Financial Services (d)	2017/18	69		7		76	10	86
Head of Legal, Democratic and HR Services	2017/18	53		5		58	8	66

**Note a:** The post-holder left the authority on 22<sup>nd</sup> September 2017.

**Note b:** The Director (Policy and Governance) has been seconded to the vacant post of Deputy Chief Executive (Early Intervention and Support) on a temporary basis from 25<sup>th</sup> September 2017.

**Note c:** The current post-holder seconded to this post on a temporary basis from 25<sup>th</sup> September 2017.

**Note d:** The cost of the Head of Shared Financial Services post is shared between Chorley and South Ribble Borough Councils. The post-holder is formally employed by Chorley Borough Council and South Ribble Borough Council is charged 50% of her salary and other remuneration. Additional payments were made during both years for acting up duties to the Section 151 role at South Ribble Borough Council; these were recharged in full to South Ribble Borough Council.

The Head of Shared Assurance post (which is not listed in the table above) was shared between South Ribble and Chorley Councils but the salary is paid through South Ribble Borough Council's payroll.

Other employees receiving more than £50,000 remuneration, excluding pension contributions, were as follows:

Remuneration Band	2017/18 Number of Employees	2018/19 Number of Employees
£50,000 - £54,999	4	1
£55,000 - £59,999	1	5
£60,000 - £64,999	1	-
£65,000 - £69,999	1	-
£70,000 - £74,999	-	1
£75,000 - £79,999	-	-
£80,000 - £84,999	-	-
£85,000 - £89,999	-	-
£90,000 - £94,999	-	-
£95,000 - £99,999	-	-
£100,000 - £104,999	-	-
£105,000 - £109,999	-	-
£110,000 - £114,999	-	-
£115,000 - £119,999	-	-
£120,000 - £124,999	-	-
£125,000 - £129,999	-	-
£130,000 - £134,999	-	-
£135,000 - £139,999	-	-

### 32 TERMINATION BENEFITS

The number of exit packages with total cost per band and total cost of the compulsory and other redundancies are set out in the table below:

Packages banded by cost	Number of compulsory redundancies		Number of other departures agreed		Total number of exit packages by cost band		Total cost of exit packages in each band £'000	
	2017/18	2018/19	2017/18	2018/19	2017/18	2018/19	2017/18	2018/19
£0 - £20,000	0	1	5	9	5	10	47	36
£20,001 - £40,000	0	0	2	5	2	5	61	142
£40,001 - £60,000	0	0	3	1	3	1	142	59
£60,001 - £80,000	0	0	0	0	0	0	0	0
£80,001 - £100,000	0	0	0	0	0	0	0	0
£100,000 - £150,000	0	0	0	0	0	0	0	0
£150,001 - £200,000	0	0	0	0	0	0	0	0
£200,001 - £250,000	0	0	0	0	0	0	0	0
£250,001 - £300,000	0	0	0	0	0	0	0	0
£300,001 - £350,000	0	0	0	0	0	0	0	0
<b>Total</b>	<b>0</b>	<b>1</b>	<b>10</b>	<b>15</b>	<b>10</b>	<b>16</b>	<b>250</b>	<b>237</b>

### 33 EXTERNAL AUDIT COSTS

The fees due from the Council to the external auditors for works carried out relating to the year of account 2018/19 were as follows.

	2017/18 £'000	2018/19 £'000
Fees for statutory inspection and audit	45	37
Less Audit Fees rebate	(7)	0
Fees for the certification of grant claims and returns	7	7
Fees payable in respect of other services	5	5
<b>Total</b>	<b>50</b>	<b>49</b>

Fees payable in respect of other services in 2018/19 includes payment of £5,000 to Grant Thornton UK LLP in relation to the 2018/19 Homes England Audit for the Primrose Gardens affordable housing.

**34 GRANT INCOME**

The Authority credited the following grants, contributions and donations to the Comprehensive Income and Expenditure Statement.

	<b>2017/18 £'000</b>	<b>2018/19 £'000</b>
<b><u>Credited to Taxation and Non-Specific Grant Income &amp; Expenditure (Note 14)</u></b>		
Revenue Support Grant (RSG)	(734)	(299)
New Homes Bonus grant	(4,007)	(2,989)
Other revenue grants	(1,210)	(1,336)
Capital Contributions – S106 Contributions	(2,232)	(3,392)
Capital Contributions – Community Infrastructure Levy	(3,439)	(2,570)
Capital other grants and contributions	(1,382)	(6,395)
Donations	(21)	0
Exchanged Assets	0	0
<b>Total</b>	<b>(13,025)</b>	<b>(16,981)</b>
<b><u>Credited to Services</u></b>		
Grants – benefits related	(24,505)	(23,245)
Grants – other	(688)	(925)
Contribution – County Council reimbursement	(1,515)	(330)
Contributions – other	(2,336)	(1,530)
<b>Total</b>	<b>(29,044)</b>	<b>(26,031)</b>

The line for capital contributions has been split in 2018/19 due to the material value of CIL income received in 2018/19. To allow comparison between both financial years the figures for capital contributions has also been split in 2018/19 between s106 and CIL contributions.

The Authority has received a number of grants, contributions and donations that have yet to be recognised as income as they have conditions attached that could require the monies to be returned to the giver. The balances at year-end, shown separately on the balance sheet as Grant Receipts in Advance - Capital, are as follows:

	<b>2017/18 £'000</b>	<b>2018/19 £'000</b>
<b>Grant Receipts in Advance - Capital</b>		
Grant – Regional Housing Pot	(38)	(38)
Grant – Homes England	(1,366)	(29)
Other Government Grants	(100)	(13)
Other grants and contributions	(12)	(31)
<b>Total</b>	<b>(1,516)</b>	<b>(111)</b>

### 35 RELATED PARTIES

The financial statements must disclose material transactions with related parties, to draw attention to the possible extent to which the Council might have been constrained in its ability to operate independently or might have secured the ability to limit another party's ability to bargain freely with the council.

- **Central Government**

Central government has effective control over the general operations of the council as it provides the statutory framework within which the Authority operates and the majority of its funding in the form of grants. Details of government grants received are given in note 34.

- **Members of the Council**

Members have direct control over the council's financial and operating policies. Elected members are required to complete a Notice of Registerable Interests and notify the council of any changes within 28 days. Declarations of interests in items relating to the personal interest of partners, relatives or friends, are also recorded in the minutes of the meeting and the member will leave the meeting. Declarations are open to public inspection.

Note 30 relates to the allowances paid to members. The amounts paid to individual members are reported on the Council's web site.

Members are also appointed to represent the Council on various external organisations some of which receive financial assistance from the Council. The amounts paid were immaterial, and were properly approved.

- **Officers**

The Staff Code of Conduct requires declaration, to the departmental Chief Officer, of close personal relationships with Councillors and Contractors, financial and non-financial interests in, or membership of, external organisations, and all hospitality or gifts. These arrangements are subject to monitoring and reporting by the Council's HR Department. There were no material related party transactions in respect of officers.

- **Chorley Youth Zone**

Chorley Youth Zone opened on 5<sup>th</sup> May 2018. Total cost is estimated at £4.7m shared as CBC £1m (excluding the £180k purchase of the site), LCC £1.1m and Onside who will arrange other funding for the remaining balance. Chorley Youth Zone shall be owned and operated as the Chorley Youth Zone Charitable Trust (CYZCT) with Chorley Council as land owner leasing the land to CYZCT over a 125 year lease at a peppercorn rate.

Chorley Council will make a £100k annual revenue contribution to the trust to support its operations. Chris Sinnott, Deputy Chief Executive at Chorley Council is one of 9 directors to CYZCT and therefore does not have a controlling interest.

- **Chorley Community Housing Ltd (CCH)**

In 2006/07 the Council's housing stock was transferred to CCH. The Council receives a proportion of the receipts from the preserved right to buy sales of dwellings to former Chorley council tenants (see note 40 Contingent Assets). In 2018/19 this totalled £0.098m (2017/18 £0.249m).

An outstanding CCH debtor as at 31st March 2019 amounts to £97,514.88.

- **Partnerships, Companies and Trusts**

Financial & Assurance Shared Services Partnership – In January 2009 this partnership was established under an Administrative Collaboration Agreement entered into by South Ribble and Chorley Borough Councils. This provides for the provision of accountancy, exchequer, treasury management, procurement and assurance services across the administrative areas of the two Councils.

A Shared Services Joint Committee has been established to discharge the Chorley and South Ribble Councils' functions of providing the services detailed in the Shared Services Agreement.

In 2018/19 gross expenditure of £1.74m (2017/18 £1.58m) was incurred on the shared services, which was fully funded by recharges to the two Councils.

An outstanding F&ASSP debtor as at 31<sup>st</sup> March 2019 amounts to £182,670.30

An outstanding F&ASSP creditor as at 31<sup>st</sup> March 2019 amounts to £128,770.13

- **Entities Controlled or Significantly Influenced by the Authority**

Payment of subsidy of £15k was made to Chorley & South Ribble Shopmobility in 2018/19, to supply Shopmobility services for the community of Chorley and District with wheelchairs and Mobility Scooters for the year 2018/19. Chorley & South Ribble Shopmobility typically receive £25k to £30k of income per annum and therefore Chorley Council's contribution represents a significant proportion of this income. The council has two councillors on the management committee; one does not have voting rights, there are nine trustees in total.

Payment of £7,979.81 was made to Mawdesley Millennium Green Trust to transfer Section 106 contributions as a grant towards improvements to the Millennium Green Playground. Mawdesley Millennium Green Trust typically receive £12k to £19k of income per annum and therefore Chorley Council's contribution represents a significant proportion of this income. The council has one councillor who holds the position of Charity trustee along with 7 other people.

### 36 CAPITAL EXPENDITURE AND FINANCING

The total capital expenditure in the year is shown in the following table, together with the resources that have been used to finance it.

Where capital expenditure is to be financed in future years by charges to revenue as assets are used by the authority, the expenditure results in an increase in the Capital Financing Requirement (CFR), a measure of the capital expenditure incurred historically by the authority that has yet to be financed. The CFR is analysed in the second part of this note.

	<b>2017/18</b>	<b>2018/19</b>
	<b>£'000</b>	<b>£'000</b>
Opening Capital Financing Requirement	39,287	41,507
Capital investment		
Property, Plant and Equipment (Note 15)	8,357	22,329
Less 2017/18 PPE investment reclassified as REFCUS	0	(166)
Intangible Assets (Note 18)	73	7
Heritage Assets (Note 16)	24	1
Revenue Expenditure Funded from Capital under Statute	2,937	2,711
Sources of finance		
Capital Receipts	(280)	(576)
Government Grants and Other Contributions	(5,086)	(13,896)
Sums set aside from revenue		
Revenue Financing (Note 26b)	(1,048)	(2,091)
Minimum Revenue Provision – statutory (Note 26b)	(487)	(542)
Capital receipts applied to reduce Capital Financing Requirement (Note 26b)	(2,270)	0
<b>Closing Capital Financing Requirement</b>	<b>41,507</b>	<b>49,284</b>
Explanation of movements in year		
Increase in prudential borrowing	4,977	8,319
Provision made for debt repayment	(2,757)	(542)
<b>Increase/(Decrease) in Capital Financing Requirement</b>	<b>2,220</b>	<b>7,777</b>

The Capital Financing Requirement takes account of a £23.341 million investment in to Property, Plant and Equipment during the 2013/14 financial year, financed by prudential borrowing. This was to purchase the Market Walk shopping centre which continues to generate income for the Authority. The financing requirement is offset annually by a provision for debt repayment.

The council utilised a large amount of capital grants and developer contributions in 2018/19. The major grants utilised were £3.079m ERDF funding towards the Strawberry Fields Digital Office Park, £2.137m Homes England grant and £0.877m LCC grant towards the Primrose Gardens Retirement Home and £1.102m Lottery funding towards the renovation of Bank Hall. Developer contributions included £5.162m towards the Market Walk extension project including the enhanced car parking in Chorley town centre.

**37 LEASES****37a Authority as lessee**Finance leases

The Council has no finance leases

Operating leases

The Authority operates plant, vehicles and office equipment under operating leases. There are also lease arrangements embedded in the refuse contract. The future minimum payments, and sub-lease minimum receipts, are as follows:

	31 March 2018		31 March 2019	
	Payments £'000	Receipts £'000	Payments £'000	Receipts £'000
Not later than 1 year	588	(43)	489	(43)
Later than 1 year, not later than 5	379	(170)	1,316	(170)
Later than 5 years	205	(198)	1,342	(155)
<b>Minimum lease payments</b>	<b>1,172</b>	<b>(411)</b>	<b>3,147</b>	<b>(368)</b>

The operating lease rentals charged in the Comprehensive Income and Expenditure Statement during the year were as follows:

	2017/18 £'000	2018/19 £'000
Minimum lease payments	596	608
Sub-lease payments receivable	(43)	(43)
<b>Total payable rentals</b>	<b>553</b>	<b>565</b>

**37b Authority as Lessor**Finance leases

The Council has leased two properties, each for periods of 125 years.

The authority has a gross investment in the lease, made up of the minimum lease payments expected to be received over the remaining term and the residual value anticipated for the property when the lease comes to an end. The minimum lease payments comprise settlement of the long-term debtor for the interest in the property acquired by the lessee and finance income that will be earned by the authority in future years whilst the debtor remains outstanding. The gross investment is made up of the following amounts:

	31 March 2018 £'000	31 March 2019 £'000
Finance lease debtor (present value of minimum lease payments)		
• Current	0	0
• Non-Current	289	289
Unearned finance income	2,164	2,140
<b>Gross investment in the lease</b>	<b>2,453</b>	<b>2,429</b>

The gross investment in the lease and the minimum lease payments will be received over the following periods:

	Gross investment in the lease		Minimum lease payments	
	31 March 2018 £'000	31 March 2019 £'000	31 March 2018 £'000	31 March 2019 £'000
Not later than 1 year	24	24	24	24
Later than 1 yr. not later than 5	95	95	95	95
Later than 5 years	2,334	2,310	2,334	2,310
<b>Total</b>	<b>2,453</b>	<b>2,429</b>	<b>2,453</b>	<b>2,429</b>

No allowance for uncollectible amounts is deemed necessary. No contingent rents were received by the authority.

#### Operating leases

The Council lets 49 offices, industrial units and sites, and units in the Market Walk Shopping Centre. The future minimum lease payments receivable are:

	31 March 2018 £'000	31 March 2019 £'000
Not later than one year	2,063	2,057
Later than one year and not later than five years	5,116	4,325
Later than five years	12,306	11,452
<b>Total receivable rentals</b>	<b>19,485</b>	<b>17,834</b>

No contingent rents were received by the authority.

## **38 DEFINED BENEFIT PENSION SCHEME**

### **38a Governance**

As part of the terms and conditions of employment of its officers and other employees, the Authority offers retirement benefits through the Local Government Pension Scheme. This scheme is administered by Lancashire County Council who have appointed a Pension Fund Committee (comprising a mix of County Councillors and representatives from other employers) to manage the Fund. The Committee is assisted by an investment panel which advises on investment strategy and risk management. The scheme is funded and pays defined benefits based on how long employees are active members, and their salary when they leave (a “final salary” scheme) for service up to 31 March 2014 and on revalued average salary (a “career average” scheme) for service from 1 April 2014 onwards.

### **38b Funding the liabilities**

Regulations require actuarial fund valuations to be carried out every 3 years. Contributions for each employer are set having regard to their individual circumstances. Contributions must be set with a view to targeting the Funds solvency (the detailed provisions are set out in the Fund’s Funding Strategy Statement). The latest valuation, carried out as at 31 March 2016, showed a shortfall for all employers of £690m or 10%. Employers are paying additional contributions over 19 years to meet the shortfall, commencing in 2014/15.

In 2019/20 the Council will pay a contribution of 14.4% of pensionable pay, estimated to cost £1.236m, plus a deficit recovery contribution of £0.966m.

### **38c Risks**

The primary risk is that the Fund’s assets will, in the long-term, fall short of its liabilities to pay benefits to members.

Investment risk management seeks to balance the maximisation of the opportunity for gain and minimise the risk of loss, on the fund’s investments. The Fund achieves this through asset diversification to reduce exposure to market risk (price risk, currency risk, and interest rate risk), by ensuring counterparties meet credit criteria, and that investments are within the limits set by the investment strategy.

Other risks - The fund managers have to ensure that the fund has adequate liquidity to meet its obligations as they arise. They must also be sensitive to any actions of government or changes in European legislation which might affect funding requirements.

Sensitivity to these risks is estimated in note 38j.

### **38d Transactions relating to retirement benefits**

The Council recognises the cost of retirement benefits in the revenue account in the Cost of Services, when they are earned by employees, rather than when the benefits are actually paid as pensions. However, the charge required to be made against Council Tax is based on the cash payable to the fund during the year. An adjustment is therefore made to the General Fund via the Movement in Reserves Statement. The following table shows the transactions made in the Comprehensive Income and Expenditure Statement and the General Fund Balance via the Movement in Reserves Statement during the year:

	2017/18 £'000	2018/19 £'000
<b><u>Comprehensive Income &amp; Expenditure Statement</u></b>		
Cost of Services:		
Administration	38	38
Current service cost	2,594	2,387
Past service cost	0	0
Settlement and curtailment	137	107
Net interest on the net defined benefit liability		
Interest costs	3,513	3,587
Expected return on scheme assets	(2,287)	(2,434)
<b>Total post-employment benefit charged to the (Surplus)/Deficit on the Provision of Service</b>	<b>3,995</b>	<b>3,685</b>
<b><u>Other post-employment benefit charged to the Comprehensive Income &amp; Expenditure Statement</u></b>		
Re-measurement of the net defined benefit liability		
Return on plan assets, excluding amount included in interest expense	(998)	(8,253)
Actuarial experience gains & losses	0	0
Actuarial gains & losses from changes in demographic assumptions	0	0
Actuarial gains & losses from changes in financial assumptions	(5,413)	7,554
<b>Total re-measurements recognised in Other Comprehensive Income</b>	<b>(6,411)</b>	<b>(699)</b>
<b>Total post-employment benefit charged to the Comprehensive Income &amp; Expenditure Statement</b>	<b>(2,416)</b>	<b>2,986</b>
<b><u>Movement in Reserves Statement</u></b>		
Reversal of net charges made to the (Surplus)/Deficit on the Provision of Services	(3,995)	(3,685)
Actual employer contributions to the scheme	2,174	2,228

### 38e Pensions Assets and Liabilities Recognised in the Balance Sheet

The amount included in the balance sheet arising from the Authority's obligation in respect of its defined benefit plans is as follows

	<b>Scheme Liabilities</b>	
	<b>Local Government Pension Scheme</b>	
	2017/18 £'000	2018/19 £'000
Present value of the defined benefit obligation	(139,670)	(149,951)
Fair value of plan assets	94,165	103,684
<b>Net liability arising from defined benefit obligation</b>	<b>(45,505)</b>	<b>(46,267)</b>

**38f Reconciliation of the Movements in the Fair Value of Scheme (Plan) Assets**

	<b>Scheme Assets Local Government Pension Scheme</b>	
	<b>2017/18 £'000</b>	<b>2018/19 £'000</b>
<b>Opening fair value of scheme assets</b>	<b>92,067</b>	<b>94,165</b>
Interest income	2,287	2,434
Re-measurement gain/(loss)		
Return on plan assets, excluding amount included in interest expense	998	8,253
Employer contributions	2,207	2,224
Employee contributions	500	505
Benefits paid	(3,856)	(3,859)
Other	(38)	(38)
<b>Closing fair value of scheme assets</b>	<b>94,165</b>	<b>103,684</b>

**38g Reconciliation of Present Value of the Scheme Liabilities (Defined Benefit Obligation)**

	<b>Scheme Liabilities Local Government Pension Scheme</b>	
	<b>2017/18 £'000</b>	<b>2018/19 £'000</b>
<b>Opening Balance at 1 April</b>	<b>(142,195)</b>	<b>(139,670)</b>
Current service cost	(2,594)	(2,387)
Interest cost	(3,513)	(3,587)
Contributions by scheme participants	(500)	(505)
Re-measurement gains and (losses)		
Changes in demographic assumptions	0	0
Changes in financial assumptions	5,413	(7,554)
Other	0	0
Benefits paid	3,856	3,859
Curtailement	(137)	(107)
Past service costs	0	0
<b>Closing Balance at 31 March</b>	<b>(139,670)</b>	<b>(149,951)</b>

**38h Impact on the Authority's Future Cash Flows**

The objectives of the scheme are to keep employers' contributions at as constant rate as possible. The County Council has agreed a strategy with the scheme's actuary to achieve a funding level of 100% over 19 years. Funding levels are monitored on an annual basis. The next triennial valuation is due as at 31 March 2019.

The scheme will need to take account of the national changes to the scheme under the Public Pensions Services Act 2013. Under the Act, the Local Government Pension Scheme in England and Wales and the other main existing public service schemes may not provide benefits in relation to service after 31 March 2014. The Act provides for scheme regulations to be made within a common framework, to establish new career average revalued earnings schemes to pay pensions and other benefits to certain public servants.

The authority anticipates paying £2.275m expected contributions to the scheme in 2019/20.

The weighted average duration of the defined benefit obligation for scheme members is 17 years.

## 38i Local Government Pension Scheme assets comprised

	Fair value of scheme assets			
	2017/18 £'000	Percentage total of asset %	2018/19 £'000	Percentage total of asset %
<b>Cash</b>				
Cash and cash equivalents	(2,276)	(2.4%)	0	0.0%
Cash Accounts	3,974	4.2%	529	0.5%
Net Current Assets	(2,091)	(2.2%)	72	0.1%
	(393)	(0.4%)	601	0.6%
<b>Bonds</b>				
UK corporate	537	0.5%	704	0.7%
Overseas corporate	1,118	1.2%	512	0.5%
Government	2,247	2.4%	3,645	3.5%
Overseas Fixed Interest	91	0.1%	0	0.0%
Sub-total bonds	3,993	4.2%	4,861	4.7%
<b>Property</b>				
Retail	2,590	2.8%	2,496	2.4%
Commercial	6,267	6.6%	7,168	6.9%
Sub-total property	8,857	9.4%	9,664	9.3%
<b>Private equity</b>				
UK	0	0.0%	0	0.0%
Overseas	48,671	51.7%	53,674	51.8%
Sub-total private equity	48,671	51.7%	53,674	51.8%
<b>Other</b>				
Infrastructure	11,933	12.7%	14,657	14.1%
Property	1,430	1.5%	1,587	1.5%
Credit funds	17,351	18.4%	7,362	7.1%
Pooled Fixed Income	2,323	2.5%	11,278	10.9%
Sub-total alternatives	33,037	35.1%	34,884	33.6%
	<b>94,165</b>	<b>100%</b>	<b>103,684</b>	<b>100%</b>

**38j Basis for Estimating Assets and Liabilities**

Liabilities have been assessed on an actuarial basis using the projected unit credit method, an estimate of the pensions that will be payable in future years dependent on assumptions about mortality rates, salary levels etc. The liabilities have been assessed by Mercer's, an independent firm of actuaries. Estimates for the County Council Fund are based on the latest full valuation of the scheme as at 31 March 2016.

The main assumptions used in their calculations have been as follows:

	Local Government Pension Scheme	
	2017/18	2018/19
Mortality assumptions		
Longevity at 65 for current pensioners		
Men	22.7 yrs	22.8 yrs
Women	25.4 yrs	25.5 yrs
Longevity at 65 for future pensioners		
Men	25 yrs	25.1 yrs
Women	28 yrs	28.2 yrs
Rate of inflation (CPI)	2.1%	2.2%
Rate of increase in salaries	3.6%	3.7%
Rate of increase in pensions	2.2%	2.3%
Rate for discounting scheme liabilities	2.6%	2.4%

The estimation of the defined benefit obligations is sensitive to the actuarial assumptions set out in the table above. The sensitivity analyses below have been determined based on reasonably possible changes in the assumptions occurring at the end of the reporting period, and for each assumption assumes that other factors remain unchanged.

	Impact on the defined benefit obligation in the scheme £'000
Longevity (increase 1 year)	2,986
Rate of inflation (increase of 0.1% p.a.)	2,627
Salary inflation (increase of 0.1% p.a.)	349
Rate for discounting scheme liabilities (increase of 0.1%)	(2,581)

### **39 CONTINGENT LIABILITIES**

On transferring its housing stock in 2006/07, the Council gave warranties to Chorley Community Housing Limited against certain environmental risks. The Council's liability is restricted to a maximum loss of £18m arising over a period of 18 years. It has paid a single premium to insure against claims of up to £15m for a period of 10 years, and has covered the remaining 8 years by payment of additional annual premiums. At 31 March 2019 there are 6 years of the liability period outstanding.

Many councils including Chorley have received claims for mandatory charitable business rates relief from NHS Trusts and NHS Foundation Trusts. The backdated relief could be worth hundreds of millions of pounds in total for all of the councils. The councils have rejected the claims on the grounds that the NHS bodies are not charities, and therefore the claims are unfounded. The backdated value of the claims received by Chorley Council to 2018/19 are estimated to be £4.264m, of which the authority's share would be £2.388m (if settled in 2019/20 while a member of the 75% business rates retention pilot pool for Lancashire).

### **40 CONTINGENT ASSETS**

The Council is entitled to a share of the proceeds from the sale of dwellings transferred to Chorley Community Housing. This agreement has a further four years to run. The amount receivable will depend on the numbers sold and cannot be predicted.

## Collection Fund Statement

The Collection Fund (England) is an agent's statement that reflects the statutory obligation for billing authorities to maintain a separate Collection Fund. The statement shows the transactions of the billing authority in relation to the collection from taxpayers, and distribution to local authorities and the Government, of Council Tax and Non-Domestic Rates (Business Rates).

2017/18		Collection Fund	2018/19	
Business Rates £'000	Council Tax £'000		Business Rates £'000	Council Tax £'000
26,864	60,330	<b>INCOME</b> Council Tax Receivable Business Rates Receivable	25,958	64,587
607		<b>Contribution towards previous year's estimated Deficit</b> Central Government	707	
485		Chorley Council (Note 14)	566	
109		Lancashire County Council	128	
12		Lancashire Combined Fire Authority	14	
1,213	0		1,415	
28,077	60,330	Total amounts to be credited	27,373	64,587
		<b>EXPENDITURE</b> <b>Apportionment of previous year's estimated Surplus</b> Central Government		58
	80	Chorley Council (Note 14)		359
	487	Lancashire County Council		19
	27	Lancashire Combined Fire Authority		49
	67	Police & Crime Commissioner for Lancashire		
0	661			485
12,411		<b>Precepts, Demands and Shares</b> Central Government	12,283	
9,929	7,146	Chorley Council (Note 14)	9,826	7,495
2,234	43,901	Lancashire County Council	2,211	47,413
248	2,354	Lancashire Combined Fire Authority	246	2,470
	5,945	Police & Crime Commissioner for Lancashire		6,497
24,822	59,346		24,566	63,875

2017/18		Collection Fund	2018/19	
Business Rates £'000	Council Tax £'000		Business Rates £'000	Council Tax £'000
		<b>Charges to Collection Fund</b>		
	175	Write offs of uncollectable amounts		11
181	71	Increase/(Decrease) in Bad Debt Provision	113	(89)
555		Increase/(Decrease) in Provision for Appeals	744	
133		Cost of Collection	130	
2,365		Transitional Protection Payments	990	
3,234	246		1,977	(78)
28,056	60,253	Total amounts to be debited	26,543	64,282
21	77	<b>Surplus/(Deficit) arising during the year</b>	<b>830</b>	<b>305</b>
		<b>Collection Fund Balance</b>		
(1,436)	972	Balance brought forward at 1 April	(1,415)	1,049
21	77	Surplus/(Deficit) for the year	830	305
<b>(1,415)</b>	<b>1,049</b>	<b>Balance carried forward at 31 March</b>	<b>(585)</b>	<b>1,354</b>
		<b>Allocated to</b>		
(566)	125	Chorley Council - Collection Fund Adjustment Account	(234)	157
(707)		Central Government	(292)	
(128)	777	Lancashire County Council	(53)	1,001
(14)	41	Lancashire Combined Fire Authority	(6)	144
	106	Police & Crime Commissioner for Lancashire		52
<b>(1,415)</b>	<b>1,049</b>	<b>Surplus/(Deficit) at 31 March</b>	<b>(585)</b>	<b>1,354</b>

## ACCOUNTING FOR COUNCIL TAX

The amount of Council Tax to be credited to the Comprehensive Income and Expenditure Statement for both billing authorities and major preceptors is their share of the accrued income. However, statute requires that the amount to be credited to the General Fund should be the authority's precept or demand for the year plus its share of the previous year's Collection Fund surplus or deficit. The difference between this regulatory charge and the accrued income is taken to the Collection Fund Adjustment Account, as revealed in the Movement in Reserves Statement. See also Note 10.

Since the collection of Council tax is an agency arrangement, debtor and creditor balances belong proportionately to the billing authority and the major preceptors. This results in a debtor or creditor position between the billing authority and each major preceptor.

### COUNCIL TAX DETAILS OF CHARGE

For the purpose of calculating Council Tax, residential properties are classified into eight valuation bands. Each valuation band is proportionate to the central Band D property. This enables calculation of the total tax base. The Council Tax Base for 2018/19 was calculated as follows:

Band	Dwellings	Dwellings adj. for discounts & exemptions	Proportion of Band D Charge	Band D Equivalent
<b>A (disabled)</b>	0	14.50	5/9	8.10
<b>A</b>	14,808	12,407.00	6/9	8,271.30
<b>B</b>	11,403	10,115.30	7/9	7,867.40
<b>C</b>	9,409	8,537.80	8/9	7,589.10
<b>D</b>	6,678	6,200.30	9/9	6,200.30
<b>E</b>	4,925	4,638.80	11/9	5,669.60
<b>F</b>	2,168	2,064.00	13/9	2,981.30
<b>G</b>	907	862.00	15/9	1,436.70
<b>H</b>	69	51.30	18/9	102.50
<b>Total</b>	<b>50,367</b>	<b>44,891.00</b>		<b>40,126.30</b>
Less adjustments for anticipated losses on collection				<b>(557.61)</b>
Add adjustment for new properties/technical changes to discounts				<b>580.39</b>
Less local Council Tax Support Scheme discounts				<b>(3,534.90)</b>
Band D Equivalent Number of Properties				<b>36,614.18</b>

Individual charges are calculated by estimating the amount of income required to be taken from the Collection Fund by the precepting authorities for the forthcoming year and dividing this by the council tax base. This results in an average Band D charge (excluding Parish Precepts) of £1,726.20 for 2018/19 (£1,633.65 for 2017/18). The other valuation bands are proportionate to this.

### ACCOUNTING FOR BUSINESS RATES (NNDR)

From 2013/14, NNDR income, debtor and creditor balances, provisions, arrears and prepayments have been apportioned between the Council, Government, Lancashire County Council, and Lancashire Combined Fire Authority, as a result of the implementation of Business Rates Retention.

The deficit apportioned in 2018/19 was £1.415m, which was the same as the actual cumulative deficit in the previous year of £1.415m. Regulations require the deficit or surplus estimated in the annual National Non Domestic Rates (NNDR) 1 Return to be apportioned. The sum apportioned was therefore the estimate included in NNDR1 2018/19.

Note 14 Taxation and Non-Specific Grant Income and Expenditure shows net Non-Domestic Rates Income and Expenditure for 2018/19 to be £3.257m (2017/18 £3.294m). This can be reconciled to Chorley Council's share of Business Rates Income in the Collection Fund statement in the following table:

2017/18 £'000		2018/19 £'000
9,929	Chorley Council share of Business Rates	9,826
130	Top-up receivable from Central Government	0
(6,203)	Tariff payable to Lancashire Business Rates Pool	(6,255)
(84)	Levy payable to Lancashire Business Rates Pool	(80)
8	Chorley Council share of surplus or (deficit) for year (transferred to Collection Fund Adjustment Account - Note 26e)	332
(486)	Chorley Council share of previous year's surplus or (deficit)	(566)
<b>3,294</b>	<b>NNDR net income per Note 14</b>	<b>3,257</b>

#### **NNDR DETAILS OF CHARGE**

Business Rates are organised on a national basis. In 2005/06 the Government introduced a Small Business Rate Relief Scheme. This results in there being two multipliers in England – one for small businesses at 48.0p in 2018/19 (46.6p in 2017/18); and one for larger businesses at 49.3p in 2018/19 (47.9p in 2017/18).

The Business Rates Income after reliefs was £25.9m for 2018/19 (£26.9m for 2017/18).

The rateable value for the Council's area at the end of the financial year 2018/19 was £66.99m (£67.08m in 2017/18).

## Annual Governance Statement (AGS)

The AGS report will taken to Governance Committee on 5 June 2019 for approval

### CHORLEY COUNCIL

#### ANNUAL GOVERNANCE STATEMENT

##### 1. Scope of responsibility

The residents of the Borough of Chorley expect the Council to conduct our business in a lawful and transparent way. In particular the Council have a duty to safeguard public money and account for it in an economic, efficient and effective way.

We have a continuing duty to review and improve how we discharge our functions focussing on the priorities of economy, efficiency and effectiveness.

To do this, the Council have put in place arrangements for the governance of its affairs. These arrangements assess the effectiveness of the exercise of its functions, and consider how well we manage risk.

We have approved and adopted a code of corporate governance, which is consistent with the principles of the CIPFA/SOLACE Framework Delivering Good Governance in Local Government. A copy of the code is on our website. This statement explains how the Council has complied with the code and also meets the requirements of regulation 6 of the Accounts and Audit Regulations 2015 in relation to the publication of an Annual Governance Statement.

##### 2. The purpose of the governance framework

The governance framework comprises the systems and processes, and culture and values, by which control and direct the Council. It provides how we account to, engage with and lead the community. It enables us to monitor the achievement of our strategic objectives and to consider whether our objectives have led to the delivery of appropriate, cost effective services for that community.

The system of internal control is a significant part of that framework and is designed to manage risk to a reasonable level. It is based on an ongoing process designed to identify and prioritise the risks to the achievement of the Council's policies, aims and objectives, to evaluate the likelihood of those risks being realised and the impact should they be realised. This enables us to manage risk efficiently, effectively and economically.

The governance framework has been in place at Chorley Council for the year ended 31 March 2019 and up to the date of approval of the annual report and statement of accounts.

##### 3. The governance framework

The following table describes the key elements of the systems and processes that comprise the authority's governance arrangements. These are founded on the Core Principles and sub-principles taken from our Code of Corporate Governance.

<b>Core Principle 1. Behaving with integrity, demonstrating strong commitment to ethical values, and respecting the rule of law</b>		
<b>The Council's commitment to Good Governance</b>	<b>How the Council meets these principles</b>	<b>Where you can see Governance in action</b>
<b>Behaving with</b>	✓ The council have established both for Councillors and	<b>Local Code of</b>

<p><b>integrity</b></p>	<p>Staff Codes of Conduct and training is provided on both. Standards of behaviour are also assessed during employee one-to-one meetings and appraisals.</p> <ul style="list-style-type: none"> <li>✓ It is essential that not only decisions are taken with integrity but are seen to be so. The Council have established transparent decision making processes through the Contract Procedure Rules, an online declaration of interests process and the use of standing orders. The public can therefore review and take comfort in the integrity of the decision makers.</li> <li>✓ The Council do however have processes and policies in place to provide avenues to challenge decision making through whistleblowing, complaints and the call in procedure.</li> <li>✓ The Council have a suite of counter fraud and anti-corruption policies in place – i.e. Whistleblowing policy, Antifraud and Corruption Strategy, Fraud Response Plan, Anti Bribery Policy, Anti Money Laundering Policy and Guidance, RIPA</li> </ul>	<p><b>Governance Codes of Conduct Performance and Development process CPRs and Standing Orders Register of Interests Whistleblowing Policy Customer Charter Call in procedures Anti-fraud and Corruption Policies</b></p>
<p><b>Demonstrating strong commitment to ethical values</b></p>	<ul style="list-style-type: none"> <li>✓ The Council have adopted in our Contract Procedure Rules the requirement for partners and contractors to adopt our, or have equivalent ethical standards of behaviour.</li> <li>✓ The Council have a Scrutiny Committee in place who act as the Council's watchdog, promoting open and transparent decision making, democratic accountability and to hold the executive to account for its actions.</li> </ul>	<p><b>CPRs Partnership Framework Terms of reference for Scrutiny Committee</b></p>
<p><b>Respecting the rule of law</b></p>	<ul style="list-style-type: none"> <li>✓ The Council's Constitution, policies and standing orders are all drafted in accordance with legislation. Application of these processes is tested through local assurance testing.</li> <li>✓ The Council report and Decision Making Templates include a comment from the Monitoring Officer to ensure that the legal implications of decisions are considered.</li> <li>✓ The Council is fully aware that they must pay attention to the advice of the Council's Monitoring Officer and have good reasons, which must be documented should they depart from it. In the event the Council acts unlawfully, the Monitoring Officer must report this to Full Council. The Monitoring Officer has never had cause to take this step.</li> <li>✓ The Council has appointed statutory officers including; Head of Paid Service/S.151 Officer and Monitoring Officer who fulfil their responsibilities within legislative and regulatory requirements.</li> </ul>	<p><b>Constitution Service Assurance Statements – AGS process Committee Management System (report templates) Roles of Statutory Officers within the Constitution.</b></p>
<p><b>Core Principle 2. Ensuring Openness and Comprehensive Stakeholder Engagement</b></p>		
<p><b>The Council's commitment to Good Governance</b></p>	<p><b>How the Council meets these principles</b></p>	<p><b>Where you can see Governance in action</b></p>
<p><b>Openness</b></p>	<ul style="list-style-type: none"> <li>✓ The council have a robust approach to freedom of information and aim as part of our Digital Strategy to make as much information held by the Council accessible through our website as possible.</li> <li>✓ The Council's Standing Orders have provision for public questions to be raised on any item on the agenda at both Full Council and Executive Cabinet meetings.</li> <li>✓ All key decisions must be taken in writing and are published in accordance with the legislation. As part of the process both the Senior Financial Officer and the Monitoring Officer must be consulted and provide comments. Where appropriate, comments are also included in relation to equality and HR.</li> </ul>	<p><b>Digital Strategy Council website Performance and Development process Committee Management System (report templates) Compliance with Transparency Act Equality Scheme</b></p>
<p><b>Engaging comprehensively with institutional stakeholders</b></p>	<ul style="list-style-type: none"> <li>✓ The Council have an Internal Communications Strategy and media protocol which forms the basis for our relationships with our stakeholders. We ensure that we keep accurate records of stakeholder contacts to ensure they are engaged with properly and for the correct purposes.</li> </ul>	<p><b>Internal Communications Strategy Media Protocol Consultation and Engagement Toolkit</b></p>

	<ul style="list-style-type: none"> <li>✓ A consultation and engagement toolkit is used within our project management methodology.</li> </ul>	
<b>Engaging stakeholders effectively including individual citizens and service users</b>	<ul style="list-style-type: none"> <li>✓ We use our Consultation and Engagement Toolkit to ensure that residents are properly consulted on matters which affect or interest them. This consultation contributes to the achievement of the Council's intended outcomes. Increasingly we are using web based and social media to engage with our residents but recognise that in order to consult properly we must use a mix of methods.</li> </ul>	<b>Internal Communications Strategy</b> <b>Residents Panel</b> <b>Consultation and Engagement Toolkit</b> <b>Digital Strategy</b>
<b>Core Principle 3. Defining Outcomes in terms of Sustainable Economic Social and Environmental Benefits</b>		
<b>The Council's commitment to Good Governance</b>	<b>How the Council meets these principles</b>	<b>Where you can see Governance in action</b>
<b>Defining outcomes</b>	<ul style="list-style-type: none"> <li>✓ The Council have a clearly defined vision which forms the premise of our Corporate Strategy. The Strategy itself is developed in consultation with residents and stakeholders and its implementation is through the delivery of corporate projects and service level plans. All corporate projects have an initial document which defines the outcomes and projects are monitored through the MyProjects system.</li> <li>✓ Contracts are in place for our key partnerships covering in particular Waste, Leisure, Payroll, Shared Services (with South Ribble BC).</li> </ul>	<b>Corporate Strategy</b> <b>Service Level Plans</b> <b>Corporate Projects</b> <b>Project Management Toolkit</b> <b>MyProjects system</b> <b>Partnership Framework</b>
<b>Sustainable economic social and environmental benefits</b>	<ul style="list-style-type: none"> <li>✓ The Council have refreshed the Medium Term Financial Strategy to ensure that Capital investment is structured to maximise its life span whilst being adaptable for future use. Specific consideration is made of social and economic wellbeing of residents as evidenced by projects that provide affordable supported accommodation, employment opportunities and social benefits.</li> <li>✓ The Council's contract procedure rules include the ability to consider social value when awarding contracts.</li> </ul>	<b>Medium Term Financial Strategy</b> <b>Corporate Projects</b> <b>Compliance with Transparency Act</b> <b>CPRs Public Reform Strategy</b>
<b>Core Principle 4. Determining the Interventions Necessary to Optimise the Achievement of Intended Outcomes</b>		
<b>The Council's commitment to Good Governance</b>	<b>How the Council meets these principles</b>	<b>Where you can see Governance in action</b>
<b>Determining interventions</b>	<ul style="list-style-type: none"> <li>✓ We have a robust approach to setting interventions. Members and Officers work closely together and consult on the preparation of the Corporate Strategy which sets the framework for council delivery. The benefits of interventions are considered not only based on cost but also upon need and impact in order to ensure best value is met.</li> <li>✓ Feedback from residents in this process is very important to ensure what we deliver is both needed and wanted.</li> </ul>	<b>Corporate Strategy</b> <b>Consultation and Engagement Toolkit</b>  <b>Digital Strategy</b> <b>Public Reform Strategy</b>
<b>Planning interventions</b>	<ul style="list-style-type: none"> <li>✓ The Council have a strong framework for planning the implementation of our interventions. We publish a calendar of meetings, and the Key Decision forward plan to confirm dates for decisions to be taken but in addition ensure all report writers are aware of publication of agenda dates to press for reports to be prepared in good time. We have a clear internal communications strategy to ensure proper consultation and a Risk Register.</li> <li>✓ We are promoting the use of the Project Management Toolkit which ensures that there is a clear scope, timetable and outcomes for each project and Key Performance Indicators are set to monitor each service.</li> <li>✓ Each project or intervention has a budget and there are regular meetings between management accountancy both with project managers and service heads for monitoring purposes.</li> </ul>	<b>Calendar of meetings</b> <b>Forward Plans</b>  <b>Corporate Risk Register</b>  <b>Project Management Toolkit</b> <b>KPIs</b>  <b>Budget monitoring</b>  <b>Quarterly Budget Reporting</b>
<b>Optimising achievement of intended</b>	<ul style="list-style-type: none"> <li>✓ We have a Corporate Strategy which has been agreed by Council and reflects the council's priorities. The Strategy is aimed at meeting the fundamental needs of local</li> </ul>	<b>Corporate Strategy</b>  <b>Digital Strategy</b>

<p><b>outcomes</b></p>	<p>residents, like health housing and jobs, while continuing to get Chorley in the best social and economic position for the future.</p> <ul style="list-style-type: none"> <li>✓ We have a Transformation Programme in place. The overriding aim of this is to support the council to achieve its ambitions for public service reform namely by achieving;                             <ul style="list-style-type: none"> <li>• A greater integration of public services, particularly around prevention and early intervention;</li> <li>• Focus on prevention and early intervention across public services;</li> <li>• Decision making and accountability at the lowest practical level;</li> <li>• The system-wide sharing of responsibility for management of demand and reduction of cost shunting between organisations.</li> </ul> </li> <li>✓ The Medium Term Financial Strategy is refreshed regularly to ensure it stays current and reflects any changes in council priorities. This ensures proper budgetary planning.</li> </ul>	<p><b>Transformation Programme</b></p> <p><b>Medium Term Financial</b></p> <p><b>Quarterly Budget Reporting</b></p> <p><b>Partnership Framework</b></p>
<p><b>Core Principle 5. Developing the Entity's Capacity, including the Capability of it's Leadership and the Individuals within it</b></p>		
<p><b>The Council's commitment to Good Governance</b></p>	<p><b>How the Council meets these principles</b></p>	<p><b>Where you can see Governance in action</b></p>
<p><b>Developing the entities capacity</b></p>	<ul style="list-style-type: none"> <li>✓ We have a Transformation Programme and Medium Term Financial Strategy which the Council uses to plan for future changes to the organisation, planning for future capacity needs. Such transformation is achieved through rough cut costing, benchmarking and use of the Council's Corporate Strategy.</li> <li>✓ We have a long term partnership with South Ribble BC to deliver Financial and Assurance services which both increases capacity and skills whilst delivering efficiency savings.</li> <li>✓ We have an Organisational Development Strategy which outlines the Council's approach to organisational development. Its purpose is to;                             <ul style="list-style-type: none"> <li>• Align with the Transformation Programme to build organisational capability to support its delivery;</li> <li>• Identify opportunities to build organisational capability collaboratively with partners;</li> <li>• Build organisational capability to support business as usual activities at individual, service and organisational levels;</li> <li>• To ensure that the council has the leadership to support and drive changing governance models.</li> </ul> </li> </ul>	<p><b>Transformation Programme</b></p> <p><b>Digital Strategy</b></p> <p><b>Corporate Strategy</b></p> <p><b>Medium Term Financial Strategy</b></p> <p><b>Organisational Development Strategy</b></p> <p><b>Shared Services Collaboration Agreement</b></p>
<p><b>Developing the capability of the entity's leadership and other individuals</b></p>	<ul style="list-style-type: none"> <li>✓ Roles are clearly defined within the Council through the use of job descriptions and structure charts. The Constitution details the responsibilities of officers and councillors and the roles of the statutory officers; Head of Paid Service, Chief Finance Officer and Monitoring Officer.</li> <li>✓ Good practice standards are annually assessed against the CIPFA statements for the roles of the Chief Finance Officer and Head of Internal Audit</li> <li>✓ Relationships are managed through regular and frequent member briefings.</li> <li>✓ The Council have updated the Organisational Development Plan ensuring that all staff have the opportunity to benefit from personal and professional development, and this is monitored through one to ones and the annual appraisal process.</li> <li>✓ Officers and Councillors alike are held to account through the Residents Panel, Neighbourhood Area Meetings with residents, Stakeholder Forums and the Chorley Partnership; as well as through Overview and Scrutiny</li> </ul>	<p><b>Job descriptions</b></p> <p><b>Organisational Structure Chart</b></p> <p><b>Constitution</b></p> <p><b>Roles of Statutory Officers</b></p> <p><b>Organisational Development Plan Annual Appraisal Process</b></p> <p><b>Residents Panel</b></p> <p><b>Neighbourhood area meetings</b></p>

	Committee.	Stakeholder Forums Chorley Partnership
<b>Core Principle 6. Managing Risks and Performance through Robust Internal Control and Strong Public Financial Management</b>		
<b>The Council's commitment to Good Governance</b>	<b>How the Council meets these principles</b>	<b>Where you can see Governance in action</b>
<b>Managing risk</b>	<ul style="list-style-type: none"> <li>✓ There is an established Risk Management Framework which ensures that risk is considered in all aspects of decision making. This includes the identification of risks but also ensuring responsibility for them is allocated correctly.</li> <li>✓ The council takes a proactive approach to both prevent and detect fraud and this is supported by the Council's Anti-Fraud &amp; Corruption Strategy, Internal Audit programmes, fraud investigations, participation in National Fraud Initiative exercises, and publication of proven cases</li> </ul>	<b>Risk Management Framework</b> <b>Fighting Fraud and Corruption Locally – The Local Government Counter Fraud and Corruption Strategy 2016-2019</b>
<b>Managing performance</b>	<ul style="list-style-type: none"> <li>✓ This is part of the Council's approach to business transformation. Service delivery is monitored through service meetings, performance indicators, benchmarking and budget monitoring. The Executive Members have regular service briefings in relation to their portfolios. Overview and Scrutiny Committee are engaged and Task Groups have responsibility for considering and suggesting improvements in relation to service delivery.</li> <li>✓ The Governance Committee is responsible for reviewing and challenging the adequacy of the council's governance arrangements. It closely monitors progress on control matters including improvement plans, external and internal audit programmes and reports, risk management, budget and financial investment reports.</li> </ul>	<b>Performance Indicators and Performance reporting</b>  <b>Work of Overview and Scrutiny Committee and Task Groups</b>  <b>Role of Governance Committee.</b>
<b>Robust internal control</b>	<ul style="list-style-type: none"> <li>✓ The council maintains a robust Internal Audit service, which annually provides an independent and objective opinion on the internal control environment, verifies compliance with policies, laws and regulations, evaluates and makes recommendations to improve the effectiveness of risk management, value for money and governance processes</li> <li>✓ The Council require all directorates to complete assurance statements which identify compliance issues which may exist across the Council.</li> <li>✓ The Annual Governance Statement reflects on the adequacy and effectiveness of the Council's Governance Framework. This is then independently considered by External Audit.</li> <li>✓ The Governance Committee complies with best practice and tests the Council's controls through the receipt of reports for consideration.</li> </ul>	<b>Audit Plan, Audit Charter</b>  <b>Service Assurance Statements</b>  <b>Annual Governance Statement</b>  <b>Governance Committee Terms of Reference</b>
<b>Managing data</b>	<ul style="list-style-type: none"> <li>✓ The Council have clearly defined policies and procedures for managing and storing data. Additional work is required however to embed these and update the Council's IT systems.</li> </ul>	<b>ICT Strategy</b> <b>Digital Strategy</b> <b>Information Security Framework</b> <b>GDPR Audit Plan</b>
<b>Strong public financial management</b>	<ul style="list-style-type: none"> <li>✓ All decisions of the Council require a comment from the CFO, which will address budgeting issues and compliance with Best Value and the Council's contract procedure rules. There are regular meetings between budget holders / project managers and Finance to monitor budgets and any changes can be identified early.</li> </ul>	<b>Committee Management System (report templates)</b>  <b>Asset register</b>  <b>CPRs</b>  <b>Budget monitoring and Quarterly Budget Reports</b>

		<b>Compliance with CIPFA Statement on Role of CFO</b>
<b>Core Principle 7. Implementing Good Practices in Transparency Reporting and Audit to Deliver Effective Accountability</b>		
<b>The Council's commitment to Good Governance</b>	<b>How the Council meets these principles</b>	<b>Where you can see Governance in action</b>
<b>Implementing good practice in transparency</b>	<ul style="list-style-type: none"> <li>✓ We feel it very important for the discharge of our obligations that as much information as possible is made available to the public. This is done through publication on the Council's website.</li> </ul>	<b>Council's website Compliance with Transparency Act</b>
<b>Implementing good practices in reporting</b>	<ul style="list-style-type: none"> <li>✓ The Council comply with good practice in relation to value for money reporting and the annual Statement of Accounts considers how public finances have been stewarded.</li> <li>✓ It is the practice of the Authority to ensure that all key decisions are made by councillors in accordance with our approval processes. Compliance with these processes are considered within this Annual Governance Statement.</li> </ul>	<b>Statement of Accounts Quarterly Performance Reports Scheme of Delegation Annual Governance Statement</b>
<b>Assurance and effective accountability</b>	<ul style="list-style-type: none"> <li>✓ We view improvement as a continuing process. Internal Audit reports to Governance Committee include a summary of areas for improvement and implementation is reported on an exception basis.</li> <li>✓ Overview and Scrutiny Task Groups report proposed improvements to Executive Cabinet who decide whether to accept the recommendations or not. Where accepted Cabinet will later report as to the progress of the implementation of improvements.</li> <li>✓ Residents have the right to ask questions at Council meetings in relation to matters on the meeting agenda which ensure immediate accountability to residents.</li> </ul>	<b>Internal Audit reporting to Governance Committee Governance Committee Terms of Reference Overview and Scrutiny work programme</b>

**4. Review of effectiveness**

Chorley Council has responsibility for conducting, at least annually, a review of the effectiveness of its governance framework including the system of internal control. The review of effectiveness is informed by the work of senior managers within the authority who have responsibility for the development and maintenance of the governance environment, the Internal Audit Annual Report and also by comments made by the external auditors and other review agencies and inspectorates.

The following paragraphs describe the processes that have been applied in maintaining and reviewing the effectiveness of the Council's governance framework:

**Corporate Level Review**

- A management group consisting of the following officers has been established to oversee the compilation of the Annual Governance Statement:
  - Chief Executive (S151 Officer)
  - Head of Legal, Democratic and HR Services (Monitoring Officer)
  - Director of Policy and Governance
  - Interim Audit and Risk Manager
- The group has conducted a detailed corporate level review of the Council's system of governance in accordance with the guidance provided by CIPFA / SOLACE.

**Service Level Review**

- The Council has also introduced Service Assurance Statements requiring Directors and Heads of Service to review the operation of a range of governance systems and procedures within their service areas and indicate whether there are any significant non-compliance issues. These are analysed to ascertain whether there are any common areas of concern, and if so, whether these constitute significant governance issues and as such need to be included in the Annual Governance Statement.

### ***Monitoring Officer***

- As the Council's Monitoring Officer, the Head of Legal Democratic and HR Services has a duty to monitor and review the operation of the Constitution to ensure its aims and principles are given full effect. The Monitoring Officer will report and recommend to Council any proposed amendment to the Constitution, which falls outside the Monitoring Officers delegated powers, for adoption.

### ***Scrutiny Committee***

- The Council has an Overview and Scrutiny Committee which can challenge a decision which has been made by the Executive Cabinet or a statutory committee but not yet implemented, to enable them to consider whether the decision is appropriate.

### ***Governance Committee***

- The Council has appointed a Governance Committee whose terms of reference comply with the CIPFA guidelines. These extend to monitoring the Council's governance, risk management and internal control framework and include reviewing the adequacy of the governance framework.

### ***Standards Sub-Committee***

- The Council has appointed a Standards Sub-Committee of the Governance Committee whose terms of reference comply with the prevailing national guidance on standards and codes of conduct for members.

### ***Internal Audit***

- Strong Internal Audit and Risk Management disciplines are embedded and the Shared Assurance Service maintains excellent working relationships with Senior Management, the Governance Committee and the Council's External Auditors to provide an integrated approach to the provision of assurance within the Council. The Internal Audit Service is fully compliant with the Public Sector Internal Auditing Standards, this was established following a peer review by the Audit Managers of 2 Lancashire authorities in April 2018.
- The Public Sector Internal Audit Standards require the Interim Audit and Risk Manager to provide an opinion on the overall adequacy and effectiveness of the organisations's framework of control, risk management and governance.

**Control** – The Internal Audit Service provides an independent opinion on the adequacy of the internal control system. All recommendations for improvement are agreed with Senior Management and a summary is reported to the Governance Committee. Only one Internal Audit report with a limited controls assurance rating was issued during 2018/19.

**Risk Management** – The Council's arrangements were further strengthened during 2018/19 by the continued development of the GRACE risk management system. Extensive training was delivered to Officers and the revised Risk Management Framework was approved by the Governance Committee in March 2018.

**Governance** – Actions have been taken during 2018/19 to strengthen the Council’s governance arrangements (see identified governance issues below). The Annual Governance Statement Action Plan for 2019/20 includes details of actions to further strengthen Council’s governance arrangements. The 2019 AGS has been produced following a rigorous assessment process, both internal and external.

**External Audit**

- The Council receive regular reports on elements of its internal control environment, including performance management, risk management, financial management and governance.

We have been advised on the implications of the result of the review of the effectiveness of the governance framework and system of internal control by the Authority, the executive, Governance Committee, Overview and Scrutiny Committee, and a plan to address weaknesses and ensure continuous improvement of the system is in place.

**5. Identified Governance Issues**

In the previous year the following themes were identified as requiring action and improvement:

Theme	Agreed Improvement	SMART Actions & Milestones	Status
1. Information Management	1.1 To ensure that there are clear document retention guidelines which are complied with by Services.	<ul style="list-style-type: none"> <li>- Develop program of work to replace SharePoint corporately</li> <li>- Utilise document management system within the new application.</li> </ul>	<b>COMPLETE</b> These actions were considered as part of the GDPR implementation project. Service specific retentions periods have been prepared. GDPR Audit Plan developed and detailed audits will be undertaken during 2019/20.
	1.2 To ensure that the Council is fully compliant with the Data Protection Act and Freedom of Information requirements.	<ul style="list-style-type: none"> <li>- GDPR new requirements in legislation are to be in place by May 2018. Action Plan to be implemented to ensure compliance within the timescales</li> <li>- More effective use of the information champions.</li> </ul>	<b>COMPLETE</b> Full compliance with GDPR requirements.
2. Risk Management	2.1 Review and update all Health & Safety risk assessments	<ul style="list-style-type: none"> <li>- Review &amp; update documentation</li> <li>- Arrange awareness training</li> </ul>	<b>In progress - Significant works have been done this year in high risk areas both in training and risk assessment documentation. This is being rolled out across remaining areas depending on risk.</b>
	2.2 Further embed GRACE risk management system.	<ul style="list-style-type: none"> <li>- Directors are to ensure compliance with the Risk Management Framework.</li> </ul>	
3. Customer Complaints	3.1 To improve the recording of customer	<ul style="list-style-type: none"> <li>- To undertake a review of how customer</li> </ul>	<b>In progress – work is still on-going</b>

	complaints	complaints are received to ensure that they are all captured and recorded centrally.	
4. Value for money and cost assurance	4.1 Increased use of comparative data and benchmarking to demonstrate VFM.	- Increased use of LGA Inform to demonstrate VFM	<b>COMPLETE</b>
5. Fraud	5.1 Increased fraud awareness	- Fraud awareness training to be delivered to all relevant officers using e-learning modules.	<b>In progress - This is a recurrent risk and part of the work in this area will be to identify a more robust awareness raising programme.</b>
6. Transparency	6.1 To ensure full compliance with the revised requirements of the Transparency Code.	- A review of compliance with the Code has been undertaken and areas of non-compliance are to be actioned.	<b>In progress - There are a small number of particular categories/ areas of non-compliance which will need to be considered and actioned individually.</b>
7. Communication	7.1 To review and update the Communication Strategy for both internal and external communications	- To review and update the Communication Strategy for both internal and external communications	<b>In progress - Internal Communication Strategy has been reviewed and updated.</b>
8. Compliance with Contract Procedure Rules (CPRs)	8.1 To further embed procurement policies and procedures, and to strengthen the current CPRs.	- To develop and implement a contract management system through 'Agile Point'.	<b>In progress – work is still on-going</b>

The Council will take the following steps in the forthcoming financial year to build and strengthen our corporate governance arrangements:

<b>Theme</b>	<b>Agreed Improvement</b>	<b>SMART Actions &amp; Milestones</b>	<b>Status</b>
1. Risk Management	1.1 To further embed the risk management system	- To review & update Risk Management Framework - Arrange and provide risk management training	<b>CONTINUED FROM 2018</b>
2. Customer Complaints	2.1 To improve the recording of customer complaints and identify benefit of actions taken	- To undertake a review of how customer complaints are received to ensure that they are all captured and recorded centrally - To identify and record the benefit of actions taken	<b>CONTINUED FROM 2018</b>
3. Fraud	3.1 To Review and update Anti-fraud policies	- To review and update the Anti-fraud policies	<b>Risk identified from the corporate assessment</b>
	3.2 To increase fraud awareness	- Fraud awareness training to be delivered to all relevant officers	<b>CONTINUED FROM 2018</b>

		<p>using e-learning modules</p> <ul style="list-style-type: none"> <li>- Fraud reports to be presented to Governance Committee on a regular basis.</li> </ul>	
	3.3 To compile and monitor a fraud risk register	<ul style="list-style-type: none"> <li>- Fraud risk register to be compiled and monitored on a regular basis</li> </ul>	<b>Risk identified from the corporate assessment</b>
4. Transparency	4.1 To ensure full compliance with the revised requirements of the Transparency Code.	<ul style="list-style-type: none"> <li>- A review of compliance with the Code has been undertaken and areas of non-compliance are to be actioned namely;                             <ul style="list-style-type: none"> <li>• Recording of officer decisions;</li> <li>• Publication of contracts</li> </ul> </li> </ul>	<b>CONTINUED FROM 2018</b>
5. Communication	5.1 To review and update the Communication Strategy for both internal and external communications	<ul style="list-style-type: none"> <li>- To review and update the Communication Strategy for external communications</li> <li>- To review and update the consultation engagement toolkit</li> <li>- To re-iterate to staff the need to keep customers informed (call-back procedure)</li> </ul>	<b>CONTINUED FROM 2018</b>
6. Compliance with Contract Procedure Rules (CPRs)	6.1 To further embed procurement policies and procedures, and to strengthen the current CPRs.	<ul style="list-style-type: none"> <li>- To develop and implement a contract management system through 'Agile Point'</li> <li>- To arrange and provide training to relevant staff</li> <li>- To review and update the Council's CPRs</li> </ul>	<b>CONTINUED FROM 2018</b>
7. Project Management	7.1 To review and update the Project Management Toolkit as part of the creation of the centralised Programme Management Office	<ul style="list-style-type: none"> <li>- To review and update the Project Management Toolkit to more fully incorporate finance, risk and statutory compliance monitoring</li> </ul>	<b>Risk identified from Service Assurance Statements</b>
8. Performance Management	8.1 To further embed Data Quality Policy	<ul style="list-style-type: none"> <li>- To provide data quality training and support</li> </ul>	<b>Risk identified from Service Assurance Statements</b>
9. Ethical Governance	9.1 To incorporate best practice recommendations made by Committee on Standards in Public Life into Council procedures and Code of Conduct.	<ul style="list-style-type: none"> <li>- To establish Governance Committee working group</li> <li>- Working Group to consider best practice recommendations with a view to incorporating them into Council procedures / Code of Conduct</li> <li>- Provide Code of Conduct training for Parish Councillors</li> </ul>	<b>Risk identified from corporate assessment &amp; Monitoring Officer report</b>

We propose over the coming year to take steps to address the above matters to further enhance our governance arrangements. The Themes will be entered as Management Actions onto the MyProjects system and allocated to the most appropriate Director or Head of Service for action. Progress will be monitored by the Senior Management Team using MyProjects.

## **6. Future changes which will affect Governance Arrangements**

This Council face 2 known significant changes in the near future which are likely to have significant impacts on our Governance Arrangements. These have not been highlighted by the work undertaken to identify governance issues, but it is proper to raise this within the Annual Governance Statement as we look forward to future challenges.

Brexit has been at the forefront of national consciousness for a number of years, however the impacts of leaving the European Union remain uncertain until such time as the terms of exit are agreed or known. At present, most European Legislation has been adopted as national law and steps are being taken to enact some of the remainder. There should be minimal impact on the Council's governance arrangements should the current legislative situation be maintained. However, some of the legislation, such as that pertaining to procurement and state aid, may have to be amended depending on the terms of the exit deal and any participation by the United Kingdom in the European Economic Area.

Although there are many unknowns, the Council have sought to manage these risks through the establishment of a corporate Brexit risk register which is being monitored by the Senior Management Team. Each Directorate has been asked to identify likely risks (both strategic and operational) and where appropriate establish action plans to mitigate these risks.

The second significant change to the Council takes place in May 2020, with the establishment of the new ward boundaries. The Council will be reducing the number of members from 47 to 42 and establishing 14, 3 member wards.

Whilst there will be no changes to the decision-making processes for the Council, the change in the number of members is likely to have implications for the membership of decision making bodies. There will also be consequential changes to how elections are administered in terms of the location of polling stations amongst other issues.

A number of long serving members have indicated that they will be standing down at the next election. The Council recognise that this will likely lead to a loss of knowledge and experience particularly in relation to some of the more technical committees such as Governance and Overview and Scrutiny. This risk will be addressed through the Member Development programme with specialised training being provided as required.

We are satisfied that these steps will address the need for improvements that were identified in our review of effectiveness and will monitor their implementation and operation as part of our next annual review.

**Cllr. A. Bradley**  
Leader of the Council

**G Hall**  
Chief Executive  
& Section 151 Officer

## **Glossary of Terms**

### **Accounting Policies**

The rules and practices adopted by the authority that determine how the transactions and events are reflected in the accounts.

### **Accruals Basis**

The accruals principle is that income is recorded when it is earned rather than when it is received, and expenses are recorded when goods or services are received rather than when the payment is made.

### **Agency Services**

These are services that are performed by or for another Authority or public body, where the principal (the Authority responsible for the service) reimburses the agent (the Authority carrying out the work) for the costs of the work.

### **Appointed Auditors**

From 1 April 2015 the appointment of External Auditors to Local Authorities is undertaken by Public Sector Audit Appointments Limited (PSAA), an independent company limited by guarantee and incorporated by the Local Government Association in August 2014. This role was previously undertaken by The Audit Commission. Grant Thornton UK LLP is the Council's appointed Auditor.

### **Balances**

The balances of the Authority represent the accumulated surplus of income over expenditure on any of the Funds.

### **Capital Adjustment Account**

The Account accumulates (on the debit side) the write-down of the historical cost of non-current assets as they are consumed by depreciation and impairments or written off on disposal. It accumulates (on the credit side) the resources that have been set aside to finance capital expenditure. The same process applies to capital expenditure that is only capital by statutory definition (revenue expenditure funded by capital under statute). The balance on the account thus represents timing differences between the amount of the historical cost of non-current assets that has been consumed and the amount that has been financed in accordance with statutory requirements.

### **Capital Expenditure**

This is expenditure on the acquisition of a fixed asset, or expenditure, which adds to, and not merely maintains, the value of an existing fixed asset.

### **Capital Financing Charges**

This is the annual charge to the revenue account in respect of interest and principal repayments and payments of borrowed money, together with leasing rentals.

### **Capital Financing Requirement (CFR)**

CFR is a measure of the capital expenditure historically incurred by the Authority that has yet to be financed. This will be discharged by future charges to the revenue account. In determining Council Tax charges, authorities have to make a specific provision for the financing of capital expenditure. The outstanding amount for which provision has to be made is known as the Capital Financing Requirement.

### **Capital Receipts**

Income received from the sale of land or other capital assets, a proportion of which may be used to finance new capital expenditure, subject to the provisions contained within the Local Government Act 2003.

### **Carrying Amount**

The Balance Sheet value recorded of either an asset or a liability.

**Chartered Institute of Public Finance and Accountancy (CIPFA)**

CIPFA is the leading professional accountancy body for public services.

**Code of Practice on Local Authority Accounting in the United Kingdom (The Code)**

The Code incorporates guidance in line with IFRS, IPSAS and UK GAAP Accounting Standards. It sets out the proper accounting practice to be adopted for the Statement of Accounts to ensure they 'present fairly' the financial position of the Council. The Code has statutory status via the provision of the Local Government Act 2003.

**Collection Fund**

The Council as a billing authority has a statutory obligation to maintain a separate Collection Fund. This shows the transactions of the Council in relation to the collection from taxpayers of Council Tax and Non-Domestic Rates (NDR) and its distribution to local government bodies and the Government.

**Community Assets**

These are non-current assets that the Council intends to hold in perpetuity which have no determinable finite useful life and, in addition, may have restrictions on their disposal. Examples include parks and historical buildings not used for operational purposes.

**Contingency**

This is money set aside in the budget to meet the cost of unforeseen items of expenditure, or shortfalls in income, and to provide for inflation where this is not included in individual budgets.

**Contingent Liabilities or Assets**

These are amounts potentially due to or from individuals or organisations which may arise in the future but which at this time cannot be determined accurately, and for which provision has not been made in the Council's accounts.

**Council Tax**

A local tax on residential properties within the Council's area, set by the charging (Chorley Borough Council) and precepting authorities. The level is determined by the revenue expenditure requirements for each authority divided by council tax base for the year.

**Council Tax Base**

The amount calculated for each billing authority from which the grant entitlement of its share is derived. The number of properties in each band is multiplied by the relevant band proportion in order to calculate the number of Band D equivalent properties in the area. The calculation allows for exemptions, discounts, appeals and a provision for non-collection.

**Council Tax Requirement**

This is the estimated revenue expenditure on General Fund services that will be financed from the Council Tax after deducting income from fees and charges, General Fund Balances, specific grants and any funding from reserves.

**Creditors**

Amounts owed by the Council for work done, goods received or services rendered, for which payment has not been made at the date of the balance sheet.

**Current Service Cost**

Current Service Cost is the increase in the present value of a defined benefit pension scheme's liabilities expected to arise from employee service in the current period, i.e. the ultimate pension benefits "earned" by employees in the current year's employment.

**Current Value**

The current value of an asset reflects the economic environment prevailing for the service or function the asset is supporting at the reporting date.

**Curtailment**

Curtailments will show the cost of the early payment of pension benefits if any employee has been made redundant in the previous financial year.

**Debtors**

These are sums of money due to the Council that have not been received at the date of the Balance Sheet.

**Deferred Capital Receipts**

These represent capital income still to be received after disposals have taken place and wholly consists of principal outstanding from the sale of council houses.

**Defined Benefit Scheme**

This is a pension or other retirement benefit scheme other than a defined contribution scheme. Usually, the scheme rules define the benefits independently of the contributions payable and the benefits are not directly related to the investments of the scheme. The scheme may be funded or unfunded (including notionally funded).

**Department for Communities and Local Government (DCLG)**

DCLG is a Central Government department with the overriding responsibility for determining the allocation of general resources to Local Authorities.

**Depreciation**

This is the measure of the wearing out, consumption, or other reduction in the useful economic life of property plant and equipment assets.

**Derecognition**

Financial assets and liabilities will need to be removed from the Balance Sheet once performance under the contract is complete or the contract is terminated.

**Discounts**

Discounts represent the outstanding discount received on the premature repayment of Public Works Loan Board loans. In line with the requirements of the Code, gains arising from the repurchase or early settlement of borrowing have been written back to revenue. However, where the repurchase or borrowing was coupled with a refinancing or restructuring of borrowing with substantially the same overall economic effect when viewed as a whole, gains have been recognised over the life of the replacement loan.

**Earmarked Reserves**

The Council holds a number of reserves earmarked to be used to meet specific, known or predicted future expenditure.

**External Audit**

The independent examination of the activities and accounts of Local Authorities to ensure the accounts have been prepared in accordance with legislative requirements and proper practices and to ensure the Authority has made proper arrangements to secure value for money in its use of resources.

**Fair Value**

Fair Value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.

**Finance Lease**

A finance lease is a lease that transfers substantially all of the risks and rewards of ownership of a fixed asset to the lessee.

**Financial Instruments**

A financial instrument is any contract that gives rise to a financial asset of one entity and a financial liability or equity instrument of another. The term 'financial instrument' covers both financial assets and financial liabilities and includes both the most straightforward financial assets and liabilities such as trade receivables and trade payables and the most complex ones such as derivatives and embedded derivatives.

**Financial Regulations**

These are the written code of procedures approved by the Council, intended to provide a framework for proper financial management. Financial regulations usually set out rules on accounting, audit, administrative and budgeting procedures.

**General Fund**

This is the main revenue fund of the Authority and includes the net cost of all services financed by local taxpayers and Government grants.

**Highways Network Asset**

A grouping of interconnected components, expenditure on which is only recoverable by continued use of the asset created, i.e. there is no prospect of sale or alternative use. Components include carriageways, footways and cycle tracks, structures, street lighting, street furniture, traffic management systems and land. District Council's such as Chorley Borough Council rarely hold such assets as they are not Highways Authorities.

**Housing Benefit**

This is an allowance to persons receiving little or no income to meet, in whole or part, their rent. Benefit is allowed or paid by Local Authorities but Central Government refunds part of the cost of the benefits and of the running costs of the services to Local Authorities. Benefits paid to the Authority's own tenants are known as rent rebate and that paid to private tenants as rent allowance.

**Impairment**

A reduction in the value of assets below its value brought forward in the Balance Sheet. Examples of factors which may cause such a reduction in value include general price decreases, a significant decline in a fixed asset's market value and evidence of obsolescence or physical damage to the asset.

**Infrastructure Assets**

Fixed Assets which generally cannot be sold and from which benefit can be obtained only by continued use of the asset created. Examples of such assets are highways, footpaths, bridges and water and drainage facilities.

**Intangible Assets**

These are assets that do not have physical substance but are identifiable and controlled by the Council. Examples include software, licenses and patents.

**International Financial Reporting Standard (IFRS)**

Defined Accounting Standards that must be applied by all reporting entities to all financial statements in order to provide a true and fair view of the entity's financial position, and a standardised method of comparison with financial statements of the other entities.

**Inventories**

Amounts of unused or unconsumed stocks held in expectation of future use. Inventories are comprised of the following categories:

- Goods or other assets purchased for resale
- Consumable stores
- Raw materials and components
- Products and services in intermediate stages of completion
- Finished goods

**Investment Properties**

Property, which can be land or a building or part of a building or both, that is held solely to earn rentals or for capital appreciation or both, rather than for operational purposes.

**Joint Venture**

A joint venture is a joint arrangement whereby the parties who have joint control of the arrangement have rights to the net assets of the arrangement.

**Leasing Costs**

This is where a rental is paid for the use of an asset for a specified period of time. Two forms of lease exist: finance leases and operating leases.

**Materiality**

Information is material if omitting it or misstating it could influence the decisions that users make on the basis of financial information about a specific reporting authority.

**Medium Term Financial Strategy (MTFS)**

This is a financial planning document that sets out the future years financial forecasts for the Council. It considers local and national policy influences and projects their impact on the General Fund revenue budget, and capital programme. At Chorley Borough Council this usually covers a three year timeframe.

**Minimum Revenue Provision (MRP)**

The Council is required to pay off an element of the accumulated General Fund capital spend each year through a revenue charge. MRP is the minimum amount which must be charged to an Authority's revenue account each year and set aside as provision for credit liabilities, as required by the Local Government and Housing Act 1989 and calculated in accordance with The Local Authorities (Capital Finance and Accounting) (England) Regulations 2003.

**Non-Domestic Rate (NDR) (also known as Business Rates)**

NDR is the levy on business property, based on a national rate in the pound applied to the 'rateable value' of the property. The Government determines national rate poundage each year which is applicable to all Local Authorities.

**Net Book Value (NBV)**

The amount at which non-current assets are included in the balance sheet, i.e. their historical cost or current value less the cumulative amounts provided for depreciation.

**Net Realisable Value (NRV)**

NRV is the open market value of the asset in its existing use (or open market value in the case of non-operational assets) less the expenses to be incurred in realising the asset.

**Operating Lease**

This is a type of lease, usually of computer equipment, office equipment, furniture, etc. where the balance of risks and rewards of holding the asset remains with the lessor. The asset remains the property of the lessor and the lease costs are revenue expenditure to the Authority.

**Precept**

The amount levied by various Authorities that is collected by the Council on their behalf. The major precepting Authorities in Chorley Council are Lancashire County Council, the Police and Crime Commissioner for Lancashire, and the Lancashire Combined Fire and Rescue Authority. Parish precepts are also collected on behalf of a number of Parish and Town Councils in the area.

**Premiums**

These are discounts that have arisen following the early redemption of long term debt, which are written down over the lifetime of replacement loans where applicable.

**Prior Period Adjustments**

These are material adjustments which are applicable to an earlier period arising from changes in accounting policies or for the correction of fundamental errors.

**Property, Plant and Equipment (PPE)**

PPE are tangible assets (i.e. assets that have physical substance) that are held for use in the production or supply of goods and services, for rental to others, or for administrative purposes, and are expected to be used during more than one year.

**Provisions**

Amounts set aside to meet liabilities or losses which it is anticipated will be incurred but where the amount and/or the timing of such costs are uncertain.

**Public Works Loan Board (PWLB)**

An arm of Central Government which is the major provider of loans to finance long term funding requirements for Local Authorities.

**Related Parties**

Related parties are Central Government, other Local Authorities, precepting and levying bodies, subsidiary and associated companies, Elected Members, all senior officers from Director and above and the Pension Fund. For individuals identified as related parties, the following are also presumed to be related parties:

- members of the close family, or the same household; and
- partnerships, companies, trusts or other entities in which the individual, or member of their close family or the same household, has a controlling interest.

**Remeasurement of the Net Defined Benefit Liability**

Remeasurement of the Net Defined Benefit Liability (asset) comprises:

- a) actuarial gains and losses
- b) the return on plan assets, excluding amounts included in net interest on the net defined benefit liability (asset), and
- c) any change in the effect of the asset ceiling, excluding amounts included in net interest on the net defined benefit liability (asset).

**Reporting Standards**

The Code of Practice prescribes the accounting treatment and disclosures for all normal transactions of a Local Authority. It is based on International Financial Reporting Standards (IFRS), International Standards (IAS) and International Financial Reporting Interpretations Committee (IFRIC) plus UK Generally Accepted Accounting Practice (GAAP) and Financial Reporting Standards (FRS).

**Regulation(s)**

Various Acts of Parliament, Statutory Instruments and Bills that require local authorities to account for transactions in a particularly way which might depart from proper accounting practice, IFRS or other Reporting Standards.

**Reserves**

Amounts set aside to help manage future risks, to provide working balances or that are earmarked for specific future expenditure priorities.

**Revaluation Reserve**

The Revaluation Reserve records the accumulated gains on the non-current assets held by the Authority arising from increases in value as a result of inflation or other factors (to the extent that these gains have not been consumed by subsequent downward movements in value).

**Revenue Support Grant**

The main Government grant paid to local authorities. It is intended to adjust for differences in needs between areas so that, if all local authorities were to spend at the level which the Government assess that they need to spend, the council tax would be the same across the whole country.

**Revenue Expenditure Funded From Capital Under Statute (REFCUS)**

Expenditure incurred during the year that may be capitalised under statutory provision but that does not result in the creation of a non-current asset that has been charged as expenditure to the CIES.

**Royal Institution of Chartered Surveyors (RICS)**

The Royal Institution of Chartered Surveyors (RICS) is a professional body that accredits professionals within the land, property and construction sectors worldwide.

Members holding RICS qualifications may use the following designations after their name: MRICS (Member), FRICS (Fellow), AssocRICS (Associate). Those with the designation MRICS or FRICS are also known as chartered surveyors.

**Service Reporting Code of Practice (SeRCOP)**

Prepared and published by CIPFA, the Service Reporting Code of Practice (SeRCOP) is reviewed annually to ensure that it develops in line with the needs of modern Local Government, Transparency, Best Value and public services reform. SeRCOP establishes proper practices with regard to consistent financial reporting for services and in England and Wales, it is given legislative backing by regulations which identify the accounting practices it propounds as proper practices under the Local Government Act 2003.

**Treasury Management**

This is the process by which the Authority controls its cash flow and its borrowing and lending activities.

**Treasury Management Strategy (TMS)**

A strategy prepared with regard to legislative and CIPFA requirements setting out the framework for treasury management activity for the Council.

**Voluntary Revenue Provision**

The Council is required to pay off an element of the accumulated General Fund capital spend each year through a revenue charge (the Minimum Revenue Provision - MRP), although it is also allowed to undertake additional voluntary payments if required, this is the Voluntary Revenue Provision (VRP).

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Town Hall  
Market Street  
Chorley  
PR7 1DP

Grant Thornton UK LLP  
4 Hardman Square  
Spinningfields  
Manchester  
M3 3EB

31 July 2019

Dear Sirs

## **Chorley Council**

### **Financial Statements for the year ended 31 March 2019**

This representation letter is provided in connection with the audit of the financial statements of Chorley Council for the year ended 31 March 2019 for the purpose of expressing an opinion as to whether the Council's financial statements are presented fairly, in all material respects in accordance with International Financial Reporting Standards and the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2018/19 and applicable law.

We confirm that to the best of our knowledge and belief having made such inquiries as we considered necessary for the purpose of appropriately informing ourselves:

#### **Financial Statements**

- i We have fulfilled our responsibilities for the preparation of the Council's financial statements in accordance with International Financial Reporting Standards and the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2018/19 ("the Code"); in particular the financial statements are fairly presented in accordance therewith.
- ii We have complied with the requirements of all statutory directions affecting the Council, and these matters have been reflected and disclosed appropriately in the financial statements.
- iii The Council has complied with all aspects of contractual agreements that could have a material effect on the financial statements in the event of non-compliance. There has been no non-compliance with requirements of any regulatory authorities that could have a material effect on the financial statements in the event of non-compliance.
- iv We acknowledge our responsibility for the design, implementation, and maintenance of internal control to prevent and detect fraud.

- v Significant assumptions used by us in making accounting estimates, including those measured at fair value, are reasonable. We are satisfied that the material judgements used in the preparation of the financial statements are soundly based, in accordance with the Code and adequately disclosed in the financial statements. There are no other material judgements that need to be disclosed.
- vi Except as disclosed in the financial statements:
  - a there are no unrecorded liabilities, actual or contingent
  - b none of the assets of the Council has been assigned, pledged or mortgaged
  - c there are no material prior year charges or credits, nor exceptional or non-recurring items requiring separate disclosure.
- vii We confirm that we are satisfied that the actuarial assumptions underlying the valuation of pension scheme assets and liabilities for IAS19 Employee Benefit disclosures are consistent with our knowledge. We confirm that all settlements and curtailments have been identified and properly accounted for. We also confirm that all significant post-employment benefits have been identified and properly accounted for.
- viii Related party relationships and transactions have been accounted for appropriately and disclosed in accordance with the requirements of International Financial Reporting Standards and the Code.
- ix All events subsequent to the date of the financial statements, and for which International Financial Reporting Standards and the Code require adjustment or disclosure, have been adjusted or disclosed.
- x We have considered the adjusted misstatements, and misclassification and disclosure changes schedule included in your Audit Findings Report. The financial statements have been amended for these misclassifications and disclosure changes, and are free of material misstatements, including omissions.
- xi We have considered the unadjusted misstatements schedule attached. We have not adjusted the financial statements for these misstatements brought to our attention as they are immaterial to the results of the Council and its financial position at the year-end.

The financial statements are free of material misstatements, including omissions

- xii Actual or possible litigation and claims have been accounted for and disclosed in accordance with the requirements of International Financial Reporting Standards.
- xiii We have no plans or intentions that may alter materially the carrying value or classification of assets and liabilities reflected in the financial statements.
- xiv We believe that the Council's financial statements should be prepared on a going concern basis on the grounds that current and future sources of funding or support will be more than adequate for the Council's needs. We believe that no further disclosures relating to the Council's ability to continue as a going concern need to be made in the financial statements.

**Information Provided**

- xv We have provided you with:
  - a access to all information of which we are aware that is relevant to the preparation of the Council's financial statements such as records, documentation, and other matters;
  - b additional information that you have requested from us for the purpose of your audit; and
  - c unrestricted access to persons within the Council from whom you determined it necessary to obtain audit evidence.
- xvi We have communicated to you all deficiencies in internal control of which management is aware.
- xvii All transactions have been recorded in the accounting records, and are reflected in the financial statements.
- xviii We have disclosed to you the results of our assessment of the risk that the financial statements may be misstated materially as a result of fraud.
- xix We have disclosed to you all information in relation to fraud, or suspected fraud, that we are aware of and that affects the Council and involves:
  - a management;
  - b employees who have significant roles in internal control; or
  - c others where the fraud could have a material effect on the financial statements.
- xx We have disclosed to you all information in relation to allegations of fraud, or suspected fraud, affecting the Council's financial statements communicated by employees, former employees, analysts, regulators, or others.
- xxi We have disclosed to you all known instances of non-compliance or suspected non-compliance with laws and regulations whose effects should be considered when preparing financial statements.
- xxii We have disclosed to you the identity of the Council's related parties, and all the related party relationships and transactions of which we are aware.
- xxiii We have disclosed to you all known actual or possible litigation and claims whose effects should be considered when preparing the financial statements.

**Annual Governance Statement**

xxiv We are satisfied that the Annual Governance Statement (AGS) reflects fairly the Council's risk assurance and governance framework, and we confirm that we are not aware of any significant risks that are not disclosed within the AGS.

**Narrative Report**

xxv The disclosures within the Narrative Report reflect fairly our understanding of the Council's financial and operating performance over the period covered by the financial statements.

**Approval**

The delegated approval of this letter of representation was minuted by the Council's Governance Committee at its meeting on 24 July 2019.

Yours faithfully

Name **Gary Hall**

Signed .....

Position...**Chief Executive (S151 Officer)**

Date.....31 July 2019

Name **Councillor Debra Platt**

Signed.....

Position...**Chair of the Governance Committee**

Date.....31 July 2019

**Signed on behalf of Chorley Council**

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## Audit Adjustments

### Impact of unadjusted misstatements

The table below provides details of adjustments identified during the 2018/19 audit which have not been made within the final set of financial statements. The Governance Committee is required to approve management's proposed treatment of all items recorded within the table below:

Detail	Comprehensive Income and Expenditure Statement £'000	Statement of Financial Position £' 000	Impact on usable reserves £'000	Reason for not adjusting
1 Additional past-service liabilities calculated due to the McCloud judgement	797	(797)	0	• Not material
2				
<b>Overall impact</b>	<b>£</b>	<b>£</b>	<b>£</b>	

# The Audit Findings for Chorley Borough Council

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Year ended 31 March 2019

24 July 2019



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## Section

1. Headlines
2. Financial statements
3. Value for money
4. Independence and ethics

## Appendices

- A. Follow up of prior year recommendations
- B. Audit adjustments
- C. Fees
- D. Audit Opinion
- E. Management Letter of Representation

The contents of this report relate only to those matters which came to our attention during the conduct of our normal audit procedures which are designed for the purpose of expressing our opinion on the financial statements. Our audit is not designed to test all internal controls or identify all areas of control weakness. However, where, as part of our testing, we identify control weaknesses, we will report these to you. In consequence, our work cannot be relied upon to disclose all defalcations or other irregularities, or to include all possible improvements in internal control that a more extensive special examination might identify. This report has been prepared solely for your benefit and should not be quoted in whole or in part without our prior written consent. We do not accept any responsibility for any loss occasioned to any third party acting, or refraining from acting on the basis of the content of this report, as this report was not prepared for, nor intended for, any other purpose.

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# Headlines

This table summarises the key findings and other matters arising from the statutory audit of Chorley Borough Council ('the Council') and the preparation of the Council's financial statements for the year ended 31 March 2019 for those charged with governance.

<b>Financial Statements</b>	<p>Under International Standards of Audit (UK) (ISAs) and the National Audit Office (NAO) Code of Audit Practice ('the Code'), we are required to report whether, in our opinion, the Council's financial statements:</p> <ul style="list-style-type: none"> <li>• give a true and fair view of the financial position of the Council and its income and expenditure for the year; and</li> <li>• have been properly prepared in accordance with the CIPFA/LASAAC code of practice on local authority accounting and prepared in accordance with the Local Audit and Accountability Act 2014.</li> </ul> <p>We are also required to report whether other information published together with the audited financial statements (including the Annual Governance Statement (AGS) and Narrative Report), is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.</p> <p>Our audit work was completed on site during June and July. Our findings are summarised within our report. We have not identified any adjustments to the financial statements. We did identify some minor disclosure issues and these are outlined in Appendix B. Our follow up of recommendations from the prior year's audit are detailed in Appendix A.</p>	<p>Our work is substantially complete and there are no matters of which we are aware that would require modification of our audit opinion Appendix D or material changes to the financial statements, subject to the following outstanding matters;</p> <ul style="list-style-type: none"> <li>- Finalisation of our audit testing</li> <li>- Review of the Council's response to the McCloud issue</li> <li>- Completion of the disclosure checklist</li> <li>- Review of audit work by the Engagement Lead</li> <li>- Receipt of management representation letter as set out in Appendix E; and</li> <li>- Review of the final set of financial statements.</li> </ul> <p>We have concluded that the other information to be published with the financial statements is consistent with our knowledge of your organisation and the financial statements we have audited.</p> <p>Our anticipated audit report opinion will be unmodified.</p>
<b>Value for Money arrangements</b>	<p>Under the National Audit Office (NAO) Code of Audit Practice ('the Code'), we are required to report if, in our opinion, the Council has made proper arrangements to secure economy, efficiency and effectiveness in its use of resources ('the value for money (VFM) conclusion').</p>	<p>We have completed our risk based review of the Council's value for money arrangements. We have concluded that Chorley Council has proper arrangements to secure economy, efficiency and effectiveness in its use of resources.</p> <p>We therefore anticipate issuing an unqualified value for money conclusion, as detailed in Appendix D. Our findings are summarised on pages 14 to 16.</p>
<b>Statutory duties</b>	<p>The Local Audit and Accountability Act 2014 ('the Act') also requires us to:</p> <ul style="list-style-type: none"> <li>• report to you if we have applied any of the additional powers and duties ascribed to us under the Act; and</li> <li>• certify the closure of the audit.</li> </ul>	<p>We have not exercised any of our additional statutory powers or duties.</p> <p>We have completed the majority of work under the Code and expect to be able to certify the completion of the audit when we give our audit opinion.</p>

## Acknowledgements

We would like to take this opportunity to record our appreciation for the assistance provided by the finance team and other staff during our audit.

# Summary

## Overview of the scope of our audit

This Audit Findings Report presents the observations arising from the audit that are significant to the responsibility of those charged with governance to oversee the financial reporting process, as required by International Standard on Auditing (UK) 260 and the Code of Audit Practice ('the Code'). Its contents have been agreed with management.

As auditor we are responsible for performing the audit, in accordance with International Standards on Auditing (UK) and the Code, which is directed towards forming and expressing an opinion on the financial statements that have been prepared by management with the oversight of those charged with governance. The audit of the financial statements does not relieve management or those charged with governance of their responsibilities for the preparation of the financial statements.

## Audit approach

Our audit approach was based on a thorough understanding of the Council's business and is risk based, and in particular included:

- An evaluation of the Council's internal controls environment, including its IT systems and controls;

- Substantive testing on significant transactions and material account balances, including the procedures outlined in this report in relation to the key audit risks

We have not had to alter or change our audit plan, as communicated to you in March 2019.

## Conclusion

We have substantially completed our audit of your financial statements and subject to outstanding queries being resolved, we anticipate issuing an unqualified audit opinion by 31 July 2019, as detailed in Appendix D. These outstanding items include:

- Finalisation of our audit testing
- Review of the Council's response to the McCloud issue
- Completion of the disclosure checklist
- Review of audit work by the Engagement Lead
- Receipt of management representation letter as set out in appendix E; and
- Review of the final set of financial statements.

## Our approach to materiality

The concept of materiality is fundamental to the preparation of the financial statements and the audit process and applies not only to the monetary misstatements but also to disclosure requirements and adherence to acceptable accounting practice and applicable law.

Materiality calculations remain the same as reported in our audit plan.

	Council Amount (£000)	Qualitative factors considered
Materiality for the financial statements	1,104	<ul style="list-style-type: none"> <li>• Risk based materiality</li> </ul>
Performance materiality	828	<ul style="list-style-type: none"> <li>• Quality of previous years' accounts</li> </ul>
Trivial matters	54	<ul style="list-style-type: none"> <li>• Based on materiality</li> </ul>

We also design our procedures to detect errors at a lower level of precision for senior officer remuneration and related parties.

# Significant findings – audit risks

## Risks identified in our Audit Plan

## Commentary

1

### Improper revenue recognition

Under ISA (UK) 240 there is a rebuttable presumed risk that revenue may be misstated due to the improper recognition of revenue.

This presumption can be rebutted if the auditor concludes that there is no risk of material misstatement due to fraud relating to revenue recognition.

### Auditor commentary

Having considered the risk factors set out in ISA240 and the nature of the revenue streams at the Council, we have determined that the risk of fraud arising from revenue recognition can be rebutted, because:

- there is little incentive to manipulate revenue recognition
- opportunities to manipulate revenue recognition are very limited
- the culture and ethical frameworks of local authorities, including Chorley Council, mean that all forms of fraud are seen as unacceptable

Therefore we do not consider this to be a significant risk for Chorley Council.

2

### Management override of controls

Under ISA (UK) 240 there is a non-rebuttable presumed risk that the risk of management over-ride of controls is present in all entities. For example, the Council faces external scrutiny of its spending and this could potentially place management under undue pressure in terms of how they report performance.

We therefore identified management override of control, in particular journals, management estimates and transactions outside the course of business as a significant risk, which was one of the most significant assessed risks of material misstatement.

### Auditor commentary

We have:

- evaluated the design effectiveness of management controls over journals
- analysed the journals listing and determined criteria for selecting high risk unusual journals
- tested unusual journals recorded during the year and after the draft accounts stage for appropriateness and corroboration
- gained an understanding of the accounting estimates and critical judgements applied made by management and considered their reasonableness with regard to corroborative evidence
- evaluated the rationale for any changes in accounting policies, estimates or significant unusual transactions.

No issues have been identified from our testing.

# Significant findings – audit risks

## Risks identified in our Audit Plan

## Commentary

### 3 Valuation of land and buildings

The Council revalues much of its land and buildings on a rolling five-yearly basis. This valuation represents a significant estimate by management in the financial statements due to the size of the numbers involved and the sensitivity of this estimate to changes in key assumptions.

Additionally, management need to ensure that the carrying value in the Council's financial statements is not materially different from the current value or the fair value (for surplus assets) at the financial statements date, where a rolling programme is used.

We therefore identified valuation of land and buildings, particularly revaluations and impairments, as a significant risk, as one of the most significant assessed risks of material misstatement, and a key audit matter.

### Auditor commentary

We have:

- evaluated management's processes and assumptions for the calculation of the estimate, the instructions issued to valuation experts and the scope of their work
- evaluated the competence, capabilities and objectivity of the valuation expert
- written to the valuer to confirm the basis on which the valuation was carried out
- challenged the information and assumptions used by the valuer to assess completeness and consistency with our understanding
- tested revaluations made during the year to see if they had been input correctly into the Council's asset register
- evaluated the assumptions made by management for those assets not revalued during the year and how management has satisfied themselves that these are not materially different to current value at year end.

We are currently concluding our work on this issue and we have no matters to report at this stage.

# Significant findings – audit risks

## Risks identified in our Audit Plan

4

### Valuation of pension fund net liability

The Council's pension fund net liability, as reflected in its balance sheet as the net defined benefit liability, represents a significant estimate in the financial statements.

The pension fund net liability is considered a significant estimate due to the size of the numbers involved (£45 million in the Council's balance sheet) and the sensitivity of the estimate to changes in key assumptions.

We therefore identified valuation of the Council's pension fund net liability as a significant risk, which was one of the most significant assessed risks of material misstatement, and a key audit matter.

## Commentary

### Auditor commentary

We have

- updated our understanding of the processes and controls put in place by management to ensure that the Council's pension fund net liability is not materially misstated and evaluated the design of the associated controls;
- evaluated the instructions issued by management to their management expert (an actuary) for this estimate and the scope of the actuary's work;
- assessed the competence, capabilities and objectivity of the actuary who carried out the Council's pension fund valuation;
- assessed the accuracy and completeness of the information provided by the Council to the actuary to estimate the liability;
- tested the consistency of the pension fund asset and liability and disclosures in the notes to the core financial statements with the actuarial report from the actuary;
- undertaken procedures to confirm the reasonableness of the actuarial assumptions made by reviewing the report of the consulting actuary (as auditor's expert) and performing any additional procedures suggested within the report; and
- obtained assurances from the auditor of the Lancashire Pension Fund as to the controls surrounding the validity and accuracy of membership data; contributions data and benefits data sent to the actuary by the pension fund and the fund assets valuation in the pension fund financial statements.

### McCloud Ruling

The Court of Appeal ruled that there was age discrimination in pension schemes for judges and firefighter where there were transitional protections given to scheme members. Where transitional provisions are unlawful then those members who are found to have been discriminated against need to be offered appropriate remedies to ensure they are placed in an equivalent position to the protected members. The legal ruling, around age discrimination, has implications for other public service schemes where they have implemented transitional arrangements on changing benefits, including the Local Government Pension Scheme.

Our view is that the McCloud judgement gives rise to a past service cost and liability within the scope of IAS 19 as the ruling creates a new obligation. The view is consistent with the NAO and other audit firms. As such additional review has been completed by the Council, with the Pension Fund and Actuary, to identify the impact on the pension liability. Our additional work on this issue includes reviewing the output from this additional review and the proposed disclosure within the Statement of Accounts. When writing the report we have not yet received the output from the Council's additional review on this matter.

# Significant findings – key judgements and estimates

Accounting area	Summary of management’s estimation process	Audit Comments
<b>Provisions for NNDR appeals - £1.2m</b>	<p>The provision brought forward as at 1 April 2018 was based on a methodology that took account of the probability of an appeal being successful, and the likely reduction in Rateable Value if successful by category of business. The probabilities were considered against the whole list of outstanding appeals, which made it difficult to match a provision value to specific properties.</p> <p>For the 2018-19 accounts the Council changed the methodology so that there should be a figure per property for which there was an appeal. Whilst it was possible for the appeals in respect of the 2010 list, a different approach was required for the 2017 list.</p> <p>The Valuation Office Agency spreadsheet was reviewed to exclude settled appeals. A separate spreadsheet was created to calculate the provision required for outstanding (pre-2017 list) appeals, and to estimate the provision for 2017 appeals not yet received.</p> <p>Duplicated appeals in respect of the same properties were eliminated. The calculation assumed there would be some reduction for each of the remaining properties, and that the reduction per type of property would be as previously recorded, though rounded up. The calculation uses each year’s multipliers to calculate backdating of potential appeals refunds to the effective date.</p>	<ul style="list-style-type: none"> <li>• The methodology is supported by detailed working papers</li> <li>• The underlying information used to determine the estimate appears appropriate</li> <li>• The change to the methodology has resulted in an overall increase in the provision</li> <li>• We have not identified any issues in relation to the consistency of the calculation at similar bodies</li> <li>• The value and estimation of the provision appears reasonable</li> <li>• Disclosure of the estimate in the financial statements is under review but no issues identified</li> </ul>

**Assessment**

- We disagree with the estimation process or judgements that underpin the estimate and consider the estimate to be potentially materially misstated
- We consider the estimate is unlikely to be materially misstated however management’s estimation process contains assumptions we consider optimistic
- We consider the estimate is unlikely to be materially misstated however management’s estimation process contains assumptions we consider cautious
- We consider management’s process is appropriate and key assumptions are neither optimistic or cautious

# Significant findings – key judgements and estimates

	Summary of management’s policy	Audit Comments
<p><b>Land and Buildings – £60,896m</b></p>	<p>Chorley’s land and buildings total £61m from a total of £91m of Property, Plant and Equipment on the Balance Sheet.</p> <p>Land and Buildings are initially measured at cost, comprising the purchase price, and any costs attributable to bringing the asset to the condition necessary for it to be capable of operating in the manner intended by the Council.</p> <p>Once operational the land and buildings are carried in the Balance Sheet at current value, determined as the amount that would be paid for the asset in its existing use.</p> <p>In respect of specialised assets, if there is an absence of market based evidence of value, depreciated replacement cost is used as an estimate of current value.</p> <p>Valuations are provided by RICS-qualified valuers, on the basis recommended by CIPFA, and accord with the Statement of Asset Valuation Principles and Guidance Notes issued by the RICS. Land and buildings are revalued sufficiently regularly to ensure that their carrying amount is not materially different from their current value at the year-end, but as a minimum every five years.</p> <p>Increases in valuations are credited to the Revaluation Reserve unless they reverse previous losses charged to the Comprehensive Income and Expenditure Statement, in which case the gain shall be credited to that account. A fall in value will be charged firstly against any balance held in the Revaluation Reserve. If this is insufficient or non-existent, the charge is made to the relevant service line in the Comprehensive Income and Expenditure Statement.</p>	<ul style="list-style-type: none"> <li>• The expert used by management is appropriately qualified and skilled</li> <li>• We found no issues in relation to the completeness of the information held by the Council and used to ensure the valuations are appropriately made</li> <li>• We have not identified any changes to the methodology</li> <li>• We are currently concluding our work on comparing the valuations to indices provided by the auditor expert, Gerald Eve</li> <li>• The Council completes an annual review of Market Walk, given specific issues within the retail sector</li> <li>• Disclosure requirements are still being considered but no issues have been identified.</li> </ul>

# Significant findings – key judgements and estimates

	Summary of management’s policy	Audit Comments																		
<p><b>Net pension liability – £46m</b></p>	<p>The Council’s net pension liability at 31 March 2019 is £46m (PY £46m) comprising the Lancashire County Pension Fund obligations. The Council uses Mercers to provide actuarial valuations of the Council’s assets and liabilities derived from this scheme. A full actuarial valuation is required every three years. The latest full actuarial valuation was completed in 2016.</p> <p>A roll forward approach is used in intervening periods, which utilises key assumptions such as life expectancy, discount rates, salary growth and investment returns. Given the significant value of the net pension fund liability, small changes in assumptions can result in significant valuation movements.</p>	<ul style="list-style-type: none"> <li>• The management expert was appropriately qualified and skilled</li> <li>• We have confirmed the appropriateness of key assumptions</li> <li>• We used pwc as auditors expert to assess actuary and assumptions made by actuary</li> </ul> <table border="1" data-bbox="840 470 1915 989"> <thead> <tr> <th data-bbox="840 470 1310 566">Assumption</th> <th data-bbox="1310 470 1601 566">Chorley Value (based on Mercers)</th> <th data-bbox="1601 470 1915 566">PwC Assessment of Mercers</th> </tr> </thead> <tbody> <tr> <td data-bbox="840 566 1310 614">Discount rate</td> <td data-bbox="1310 566 1601 614">2.4%</td> <td data-bbox="1601 566 1915 614">Within range</td> </tr> <tr> <td data-bbox="840 614 1310 662">Pension increase rate</td> <td data-bbox="1310 614 1601 662">2.3%</td> <td data-bbox="1601 614 1915 662">Assumptions reasonable</td> </tr> <tr> <td data-bbox="840 662 1310 710">Salary growth</td> <td data-bbox="1310 662 1601 710">3.6%</td> <td data-bbox="1601 662 1915 710">Within expected range</td> </tr> <tr> <td data-bbox="840 710 1310 821">Life expectancy at 65 for current pensioners (male)</td> <td data-bbox="1310 710 1601 821">22.8 years</td> <td data-bbox="1601 710 1915 821">Assumptions reasonable</td> </tr> <tr> <td data-bbox="840 821 1310 933">Life expectancy at 65 for current pensioners (female)</td> <td data-bbox="1310 821 1601 933">25.5 years</td> <td data-bbox="1601 821 1915 933">Assumptions reasonable</td> </tr> </tbody> </table>	Assumption	Chorley Value (based on Mercers)	PwC Assessment of Mercers	Discount rate	2.4%	Within range	Pension increase rate	2.3%	Assumptions reasonable	Salary growth	3.6%	Within expected range	Life expectancy at 65 for current pensioners (male)	22.8 years	Assumptions reasonable	Life expectancy at 65 for current pensioners (female)	25.5 years	Assumptions reasonable
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Life expectancy at 65 for current pensioners (female)	25.5 years	Assumptions reasonable																		
		<ul style="list-style-type: none"> <li>• No issues currently identified on the accuracy and completeness of the information</li> <li>• Valuation method consistent</li> <li>• No issues identified in the Council’s share of pension scheme assets.</li> <li>• Estimate as expected, and further review has taken place due to the McCloud issue</li> <li>• Updated liability calculations and disclosure are to be considered for McCloud issues</li> </ul>																		

# Going concern

## Our responsibility

As auditors, we are required to “obtain sufficient appropriate audit evidence about the appropriateness of management's use of the going concern assumption in the preparation and presentation of the financial statements and to conclude whether there is a material uncertainty about the entity's ability to continue as a going concern” (ISA (UK) 570).

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## Going concern commentary

### Management's assessment process

The Council prepared a detailed assessment of the appropriateness of management's use of the going concern assumption. The assessment covered:

- Medium to long-term planning
- Implications of government policy and legislation
- Forecasts and budgets
- Working capital and cashflow
- Reserves
- Provision and contingent liabilities

### Auditor commentary

- Our review of the assessment prepared by management concluded that the use of the going concern assumption is appropriate
- We are satisfied that the assessment reviewed the appropriate available evidence
- The review was of a good standard and compares well to other assessments provided elsewhere
- The review was provided by the Deputy s151 Officer for the Council.

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### Concluding comments

### Auditor commentary

- The review of going concern has no impact on the opinion which remains unmodified

# Other communication requirements

We set out below details of other matters which we, as auditors, are required by auditing standards and the Code to communicate to those charged with governance.

Issue	Commentary
① <b>Matters in relation to fraud</b>	<ul style="list-style-type: none"> <li>We have previously discussed the risk of fraud with the Governance Committee. We have not been made aware of any incidents in the period and no other issues have been identified during the course of our audit procedures.</li> </ul>
② <b>Matters in relation to related parties</b>	<ul style="list-style-type: none"> <li>We are not aware of any related parties or related party transactions which have not been disclosed</li> </ul>
③ <b>Matters in relation to laws and regulations</b>	<ul style="list-style-type: none"> <li>You have not made us aware of any significant incidences of non-compliance with relevant laws and regulations and we have not identified any incidences from our audit work.</li> </ul>
④ <b>Written representations</b>	<ul style="list-style-type: none"> <li>A letter of representation has been requested from the Council.</li> </ul>
⑤ <b>Confirmation requests from third parties</b>	<ul style="list-style-type: none"> <li>We requested confirmation of the Council's bank balances for the Cash and Cash Equivalent figure. All items were received. We also wrote to the Pension Fund Auditor and the District Valuer. Appropriate responses were received.</li> </ul>
⑥ <b>Disclosures</b>	<ul style="list-style-type: none"> <li>Our review found no material omissions in the financial statements</li> </ul>
⑦ <b>Audit evidence and explanations/significant difficulties</b>	<ul style="list-style-type: none"> <li>Our cut-off testing identified a number of transactions relating to 2018/19 that have been coded to 2019-20. From a sample of 25 transactions coded to 2019-20 in the first two months of the financial year, 8 related to 2019-20. The value of these items ranged from £4.99 to £244.80. The Council has explained that due to time pressures in the closure process it is not possible to post accruals for all items. The approach is consistent with previous years.</li> </ul>

# Other responsibilities under the Code

Issue	Commentary
① <b>Other information</b>	<ul style="list-style-type: none"> <li>We are required to give an opinion on whether the other information published together with the audited financial statements (including the Annual Governance Statement and Narrative Report), is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.</li> </ul> <p>No inconsistencies have been identified.</p>
② <b>Matters on which we report by exception</b>	<p>We are required to report on a number of matters by exception in a number of areas:</p> <ul style="list-style-type: none"> <li>If the Annual Governance Statement does not meet the disclosure requirements set out in the CIPFA/SOLACE guidance or is misleading or inconsistent with the other information of which we are aware from our audit</li> <li>If we have applied any of our statutory powers or duties</li> </ul> <p>We have nothing to report on these matters.</p>
③ <b>Specified procedures for Whole of Government Accounts</b>	<p>We are required to carry out specified procedures (on behalf of the NAO) on the Whole of Government Accounts (WGA) consolidation pack under WGA group audit instructions.</p> <p>Note that work is not required as the Council does not exceed the threshold.</p>
④ <b>Certification of the closure of the audit</b>	<p>We intend to certify the closure of the 2018/19 audit of Chorley Borough Council in the audit opinion, as detailed in Appendix E.</p>

# Value for Money

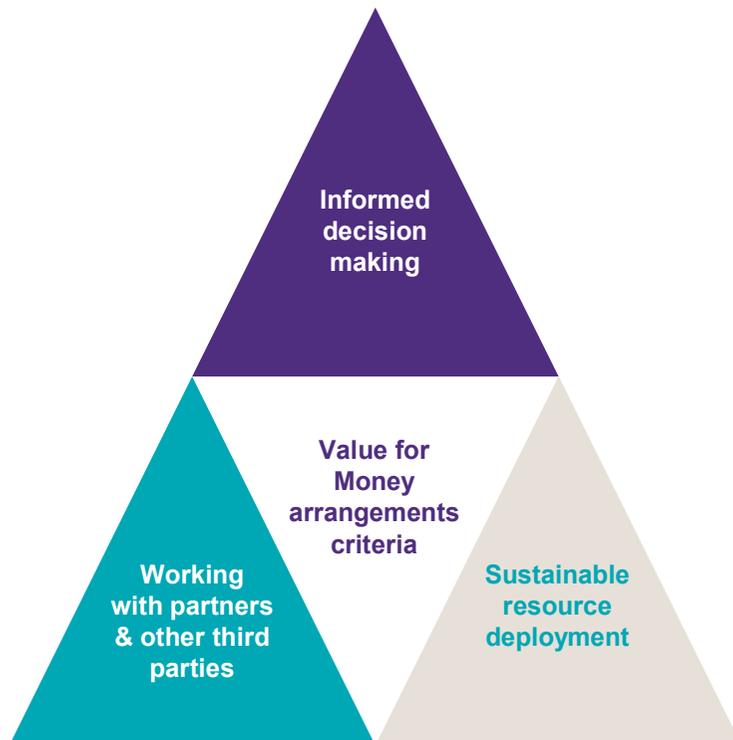
## Background to our VFM approach

We are required to satisfy ourselves that the Council has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources. This is known as the Value for Money (VFM) conclusion.

We are required to carry out sufficient work to satisfy ourselves that proper arrangements are in place at the Council. In carrying out this work, we are required to follow the NAO's Auditor Guidance Note 3 (AGN 03) issued in November 2017. AGN 03 identifies one single criterion for auditors to evaluate:

*"In all significant respects, the audited body takes properly informed decisions and deploys resources to achieve planned and sustainable outcomes for taxpayers and local people."*

This is supported by three sub-criteria, as set out below:



## Risk assessment

We carried out an initial risk assessment in February 2019 and identified one significant risk in respect of specific areas of proper arrangements using the guidance contained in AGN03. We communicated these risks to you in our Audit Plan dated March 2019.

We have continued our review of relevant documents up to the date of giving our report, and have not identified any further significant risks where we need to perform further work.

We carried out further work only in respect of the significant risks we identified from our initial and ongoing risk assessment. Where our consideration of the significant risks determined that arrangements were not operating effectively, we have used the examples of proper arrangements from AGN 03 to explain the gaps in proper arrangements that we have reported in our VFM conclusion.

# Value for Money

## Our work

AGN 03 requires us to disclose our views on significant qualitative aspects of the Council's arrangements for delivering economy, efficiency and effectiveness.

We have focused our work on the significant risks that we identified in the Council's arrangements. In arriving at our conclusion, our main considerations were:

- The delivery of the 2018/19 revenue budget and capital programme
- The robustness of future plans

We have set out more detail on the risks we identified, the results of the work we performed, and the conclusions we drew from this work on the following pages

## Overall conclusion

Based on the work we performed to address the significant risks, we are satisfied that the Council had proper arrangements for securing economy, efficiency and effectiveness in its use of resources.

The text of our report, which confirms this can be found at Appendix E.

## Recommendations for improvement

We discussed findings arising from our work with management and have agreed recommendations for improvement.

Our recommendations and management's response to these can be found in the Action Plan at Appendix A

## Significant difficulties in undertaking our work

We did not identify any significant difficulties in undertaking our work on your arrangements which we wish to draw to your attention.

## Significant matters discussed with management

There were no matters where no other evidence was available or matters of such significance to our conclusion or that we required written representation from management or those charged with governance.

## Key findings

We set out below our key findings against the significant risks we identified through our initial risk assessment and further risks identified through our ongoing review of documents.

1

Significant risk	Findings	Conclusion
<p>There remain financial challenges over the next few years which the Council needs to meet. There is a risk that revenue budget and capital programme delivery will not sufficiently meet those challenges.</p> <p>We will review the arrangements the Council has in place to plan, manage and deliver its finances over the medium term by:</p> <ul style="list-style-type: none"> <li>considering the Council's overall arrangements in place to develop its medium term financial plans</li> <li>reviewing how the capital programme is planned and delivered, including the links to the medium term financial strategy (MTFS)</li> <li>considering the development of the housing company, including how the potential financial risks and rewards are being reflected in the Council's MTFS.</li> </ul>	<p>The Council has a proven track record of delivering both its revenue budget and key elements of its capital programme. Much of this is due to the work and future planning of the Council's management team supported by the finance team.</p> <p>During 2018-19 the Council has met the challenge of delivering a balanced budget, reporting an underspend of £288,000. Continued focus is required on delivering the budget, given future uncertainties around issues such as funding and implications from Brexit.</p> <p>The Council's capital programme is an ambitious one for a district council and is very much aimed at helping deliver key priorities. From an original capital programme of £26.1m approved in February 2018, which was increased to £34m due to amounts carried forward from 2017/18 and other adjustments, the Council was able to deliver almost £25m. Slippage or adjustments in the capital programme are not unusual but the amendments to planned spend tend not to be reported to Members until late in the year. Good progress was made on delivering the key capital projects including Market Walk, Primrose Gardens and the Digital Park</p> <p>Looking forward, financial challenges remain and the Council has reported in its medium term financial strategy that it projects a cumulative gross budget deficit of £3.9m by 2021/22. Through a variety of initiatives and plans, such as reviewing fees and charges, productivity savings and council tax increases, the deficit reduces to an adjusted forecast cumulative deficit position of £1.7m. The Council remains confident that the budget deficit will be met by renegotiating contracts and transformation.</p> <p>Our review of arrangements has built on the work completed in last year's VfM work. The Council has provided further assurance that the key transformation projects are being appropriately planned, managed and monitored.</p> <p>Assumptions supporting the budget also appeared appropriate and were supported by explanations in the budget papers presented to Council in February, though those supporting medium term plans will need to be regularly reviewed and discussed with Members to ensure they remain consistent with any policy decisions. We did note that the papers presented to the February Council meeting were very thorough and gave a complete picture of the financial position and the consultation that took place in preparing the budget.</p> <p>The Council continues to consider different models for delivering efficient services, for example through extending shared services and consideration of setting up a company. Such issues receive careful and detailed consideration by Officers to assist in ensuring that outcomes are maximised for Chorley residents.</p>	<p><b>Auditor view</b></p> <ul style="list-style-type: none"> <li>Our assessment concluded that the Council has appropriate arrangements in place</li> </ul>

# Independence and ethics

We confirm that there are no significant facts or matters that impact on our independence as auditors that we are required or wish to draw to your attention. We have complied with the Financial Reporting Council's Ethical Standard and confirm that we, as a firm, and each covered person, are independent and are able to express an objective opinion on the financial statements

We confirm that we have implemented policies and procedures to meet the requirements of the Financial Reporting Council's Ethical Standard and we as a firm, and each covered person, confirm that we are independent and are able to express an objective opinion on the financial statements.

Further, we have complied with the requirements of the National Audit Office's Auditor Guidance Note 01 issued in December 2017 which sets out supplementary guidance on ethical requirements for auditors of local public bodies.

Details of fees charged are detailed in Appendix D

## Audit and Non-audit services

For the purposes of our audit we have made enquiries of all Grant Thornton UK LLP teams providing services to the Council. No non-audit services were identified, however we have delivered some audit related services. Any threats to our independence and safeguards that have been applied to mitigate these threats have been set out in the table below.

Service	£	Threats	Safeguards
<b>Audit related</b>			
Certification of Housing Benefits Subsidy Grant	9,750	Self-Interest (because this is potentially a recurring fee)	The level of this recurring fee taken on its own is not considered a significant threat to independence as the fee for this work is £9,750 in comparison to the total fee for the audit of £34,846 and in particular relative to Grant Thornton UK LLP's turnover overall. Further, it is a fixed fee and there is no contingent element to it. These factors all mitigate the perceived self-interest threat to an acceptable level.
Homes England	5,000	Self-Interest (because this is potentially a recurring fee)	The level of this recurring fee taken on its own is not considered a significant threat to independence as the fee for this work is £5,000 in comparison to the total fee for the audit of £34,846 and in particular relative to Grant Thornton UK LLP's turnover overall. Further, it is a fixed fee and there is no contingent element to it. These factors all mitigate the perceived self-interest threat to an acceptable level.

These services are consistent with the Council's policy on the allotment of non-audit work to your auditors [or explain exceptions. None of the services provided are subject to contingent fees.

# Follow up of prior year recommendations

We identified the following issues in the audit of Chorley Council’s 2017/18 financial statements and VfM conclusion, which resulted in two recommendations being reported in our 2017/18 Audit Findings report. We are pleased to report that management have implemented all of our recommendations.

	Assessment	Issue and risk previously communicated	Update on actions taken to address the issue
1	✓	<ul style="list-style-type: none"> <li>The disclosure checklist should be completed as part of the final accounts preparation.</li> </ul>	<ul style="list-style-type: none"> <li>A disclosure checklist, which covered many areas of the accounts, was included within the working papers provided on the inflo system</li> </ul>
2	✓	<ul style="list-style-type: none"> <li>The Council should continue to closely manage and monitor its financial performance. Potential issues to consider are:                             <ul style="list-style-type: none"> <li>Ensuring the assumptions in the main budget, MTFP and transformation projects need to be regularly reviewed</li> <li>Consideration should be given to presenting the quarterly monitoring report to a scrutiny committee, allowing further member review</li> </ul> </li> </ul>	<ul style="list-style-type: none"> <li>Assumptions continue to be reviewed by the Council.</li> </ul>

**Assessment**  
 ✓ Action completed  
 X Not yet addressed

# Audit Adjustments

We are required to report all non trivial misstatements to those charged with governance, whether or not the accounts have been adjusted by management.

## Impact of adjusted misstatements

No misstatements were identified on the key statements or the reported net expenditure for the year ending 31 March 2019.

## Misclassification and disclosure changes

The table below provides details of misclassification and disclosure changes identified during the audit which have been made in the final set of financial statements.

Disclosure Note	Detail	Auditor recommendations	Adjusted?
<b>20 – Debtors</b>	<ul style="list-style-type: none"> <li>Review of the breakdown of the debtor balance identified that, within the debtor disclosure note:               <ul style="list-style-type: none"> <li>Trade receivables were overstated by £67k</li> <li>Prepayments were overstated by £67k</li> </ul> </li> </ul>	<ul style="list-style-type: none"> <li>Amendment of the disclosure note was requested.</li> </ul>	✓
<b>33 – External Audit Costs</b>	<ul style="list-style-type: none"> <li>Fees for statutory inspection and audit needed to be reduced by £9k, as the cost of the Housing Benefit Subsidy claim was incorrectly included in that line</li> <li>Fees payable in respect of other services had to be increased by the same amount</li> </ul>	<ul style="list-style-type: none"> <li>Amendment of the disclosure note was requested.</li> </ul>	✓
<b>26b – Capital Adjustment Account</b>	<ul style="list-style-type: none"> <li>Minor reclassification of capital grant of £108k required within the note, to ensure consistency.</li> </ul>	<ul style="list-style-type: none"> <li>Amendment of the disclosure note was requested</li> </ul>	✓

## Other changes

Additional disclosure is likely to be required for the McCloud judgment issue and other events after the reporting period. We will update Committee Members at the meeting.

Other minor amendments were made relating to typo and rounding issues.

# Fees

We confirm below our final fees charged for the audit and provision of non-audit services

## Audit Fees

	Proposed fee	Final proposed fee
Council Audit	34,846	TBC
<b>Total audit fees (excluding VAT)</b>	<b>£34,846</b>	<b>TBC</b>

- Due to the nature of this year's audit, which has resulted in additional audit procedures on the value of your pension liability and PPE, we are proposing to request additional fee. Where we charge additional fees the value has to be agreed with both the Council and Public Sector Audit Appointments Ltd. We will include the final proposed fee in our Annual Audit Letter.

## Non Audit Fees

Service	£	Threats	Safeguards
<b>Audit related</b>			
Certification of Housing Benefits Subsidy Grant	9,750	Self-Interest (because this is potentially a recurring fee)	The level of this recurring fee taken on its own is not considered a significant threat to independence as the fee for this work is £9,750 in comparison to the total fee for the audit of £34,846 and in particular relative to Grant Thornton UK LLP's turnover overall. Further, it is a fixed fee and there is no contingent element to it. These factors all mitigate the perceived self-interest threat to an acceptable level.
Homes England	5,000	Self-Interest (because this is potentially a recurring fee)	The level of this recurring fee taken on its own is not considered a significant threat to independence as the fee for this work is £5,000 in comparison to the total fee for the audit of £34,846 and in particular relative to Grant Thornton UK LLP's turnover overall. Further, it is a fixed fee and there is no contingent element to it. These factors all mitigate the perceived self-interest threat to an acceptable level.

# Audit opinion

We anticipate we will provide the Council with an unmodified audit report

## Independent auditor's report to the members of Chorley Borough Council

### Report on the Audit of the Financial Statements

#### Opinion

We have audited the financial statements of Chorley Borough Council (the 'Authority') for the year ended 31 March 2019 which comprise the Comprehensive Income and Expenditure Statement, the Movement in Reserves Statement, the Balance Sheet, the Cash Flow Statement, the Collection Fund Statement and notes to the financial statements, including a summary of significant accounting policies. The financial reporting framework that has been applied in their preparation is applicable law and the CIPFA/LASAAC code of practice on local authority accounting in the United Kingdom 2018/19.

In our opinion, the financial statements:

- give a true and fair view of the financial position of the Authority as at 31 March 2019 and of its expenditure and income for the year then ended;
- have been prepared properly in accordance with the CIPFA/LASAAC code of practice on local authority accounting in the United Kingdom 2018/19; and
- have been prepared in accordance with the requirements of the Local Audit and Accountability Act 2014.

#### Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the 'Auditor's responsibilities for the audit of the financial statements' section of our report. We are independent of the Authority in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the FRC's Ethical Standard, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

#### Conclusions relating to going concern

We have nothing to report in respect of the following matters in relation to which the ISAs (UK) require us to report to you where:

- the Chief Financial Officer's use of the going concern basis of accounting in the preparation of the financial statements is not appropriate; or
- the Chief Financial Officer has not disclosed in the financial statements any identified material uncertainties that may cast significant doubt about the Authority's ability to continue to adopt the going concern basis of accounting for a period of at least twelve months from the date when the financial statements are authorised for issue.

#### Other information

The Chief Financial Officer is responsible for the other information. The other information comprises the information included in the Statement of Accounts, [the Narrative Report and the Annual Governance Statement] other than the financial statements and our auditor's report thereon. Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion thereon.

# Audit opinion

We anticipate we will provide the Council with an unmodified audit report

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge of the Authority obtained in the audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact.

We have nothing to report in this regard.

## Other information we are required to report on by exception under the Code of Audit Practice

Under the Code of Audit Practice published by the National Audit Office on behalf of the Comptroller and Auditor General (the Code of Audit Practice) we are required to consider whether the Annual Governance Statement does not comply with the 'Delivering Good Governance in Local Government: Framework (2016)' published by CIPFA and SOLACE or is misleading or inconsistent with the information of which we are aware from our audit. We are not required to consider whether the Annual Governance Statement addresses all risks and controls or that risks are satisfactorily addressed by internal controls.

We have nothing to report in this regard.

## Opinion on other matter required by the Code of Audit Practice

In our opinion, based on the work undertaken in the course of the audit of the financial statements and our knowledge of the Authority gained through our work in relation to the Authority's arrangements for securing economy, efficiency and effectiveness in its use of resources, the other information published together with the financial statements in the Statement of Accounts, the Narrative Report and the Annual Governance Statement and the Annual Report for the financial year for which the financial statements are prepared is consistent with the financial statements.

## Matters on which we are required to report by exception

Under the Code of Audit Practice, we are required to report to you if:

- we issue a report in the public interest under section 24 of the Local Audit and Accountability Act 2014 in the course of, or at the conclusion of the audit; or
- we make a written recommendation to the Authority under section 24 of the Local Audit and Accountability Act 2014 in the course of, or at the conclusion of the audit; or
- we make an application to the court for a declaration that an item of account is contrary to law under Section 28 of the Local Audit and Accountability Act 2014 in the course of, or at the conclusion of the audit; or
- we issue an advisory notice under Section 29 of the Local Audit and Accountability Act 2014 in the course of, or at the conclusion of the audit; or
- we make an application for judicial review under Section 31 of the Local Audit and Accountability Act 2014, in the course of, or at the conclusion of the audit.

We have nothing to report in respect of the above matters.

# Audit opinion

We anticipate we will provide the Council with an unmodified audit report

## Responsibilities of the Authority, the Chief Financial Officer and Those Charged with Governance for the financial statements

As explained more fully in the Statement of Responsibilities set out on page 41, the Authority is required to make arrangements for the proper administration of its financial affairs and to secure that one of its officers has the responsibility for the administration of those affairs. In this authority, that officer is the Chief Financial Officer. The Chief Financial Officer is responsible for the preparation of the Statement of Accounts, which includes the financial statements, in accordance with proper practices as set out in the CIPFA/LASAAC code of practice on local authority accounting in the United Kingdom 2018/19, for being satisfied that they give a true and fair view, and for such internal control as the Chief Financial Officer determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the Chief Financial Officer is responsible for assessing the Authority's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless there is an intention by government that the services provided by the Authority will no longer be provided.

The Governance Committee is Those Charged with Governance. Those charged with governance are responsible for overseeing the Authority's financial reporting process.

## Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

A further description of our responsibilities for the audit of the financial statements is located on the Financial Reporting Council's website at: [www.frc.org.uk/auditorsresponsibilities](http://www.frc.org.uk/auditorsresponsibilities). This description forms part of our auditor's report.

## Report on other legal and regulatory requirements - Conclusion on the Authority's arrangements for securing economy, efficiency and effectiveness in its use of resources

### Conclusion

On the basis of our work, having regard to the guidance on the specified criterion issued by the Comptroller and Auditor General in November 2017, we are satisfied that the Authority put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2019.

### Responsibilities of the Authority

The Authority is responsible for putting in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources, to ensure proper stewardship and governance, and to review regularly the adequacy and effectiveness of these arrangements.

## Auditor's responsibilities for the review of the Authority's arrangements for securing economy, efficiency and effectiveness in its use of resources

We are required under Section 20(1)(c) of the Local Audit and Accountability Act 2014 to be satisfied that the Authority has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources. We are not required to consider, nor have we considered, whether all aspects of the Authority's arrangements for securing economy, efficiency and effectiveness in its use of resources are operating effectively.

# Audit opinion

**We anticipate we will provide the Council with an unmodified audit report**

We have undertaken our review in accordance with the Code of Audit Practice, having regard to the guidance on the specified criterion issued by the Comptroller and Auditor General in November 2017, as to whether in all significant respects the Authority had proper arrangements to ensure it took properly informed decisions and deployed resources to achieve planned and sustainable outcomes for taxpayers and local people. The Comptroller and Auditor General determined this criterion as that necessary for us to consider under the Code of Audit Practice in satisfying ourselves whether the Authority put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2019.

We planned our work in accordance with the Code of Audit Practice. Based on our risk assessment, we undertook such work as we considered necessary to be satisfied that the Authority has put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources.

## Report on other legal and regulatory requirements - Certificate

We certify that we have completed the audit of the financial statements of Chorley Borough Council in accordance with the requirements of the Local Audit and Accountability Act 2014 and the Code of Audit Practice.

## Use of our report

This report is made solely to the members of the Authority, as a body, in accordance with Part 5 of the Local Audit and Accountability Act 2014 and as set out in paragraph 43 of the Statement of Responsibilities of Auditors and Audited Bodies published by Public Sector Audit Appointments Limited. Our audit work has been undertaken so that we might state to the Authority's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Authority and the Authority's members as a body, for our audit work, for this report, or for the opinions we have formed.

[Signature]

Name: Mark Heap, Key Audit Partner  
for and on behalf of Grant Thornton UK LLP, Local Auditor

Manchester

Xx July 2019

# Management Letter of Representation

Our ref:  
Your ref:

Grant Thornton UK LLP  
4 Hardman Square  
Spinningfields  
MANCHESTER  
M3 3EB

Xx July 2019

**Dear Sirs**  
**Chorley Borough Council**  
**Financial Statements for the year ended 31 March 2019**

This representation letter is provided in connection with the audit of the financial statements of Chorley Borough Council for the year ended 31 March 2019 for the purpose of expressing an opinion as to whether the Council financial statements are presented fairly, in all material respects in accordance with International Financial Reporting Standards and the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2018/19 and applicable law.

We confirm that to the best of our knowledge and belief having made such inquiries as we considered necessary for the purpose of appropriately informing ourselves:

## Financial Statements

- i. We have fulfilled our responsibilities for the preparation of the Council's financial statements in accordance with International Financial Reporting Standards and the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2018/19 ("the Code"); in particular the financial statements are fairly presented in accordance therewith.
- ii. We have complied with the requirements of all statutory directions affecting the Council and these matters have been appropriately reflected and disclosed in the financial statements.
- iii. The Council has complied with all aspects of contractual agreements that could have a material effect on the financial statements in the event of non-compliance. There has been no non-compliance with requirements of any regulatory authorities that could have a material effect on the financial statements in the event of non-compliance.
- iv. We acknowledge our responsibility for the design, implementation and maintenance of internal control to prevent and detect fraud.

v. Significant assumptions used by us in making accounting estimates, including those measured at fair value, are reasonable. We are satisfied that the material judgements used in the preparation of the financial statements are soundly based, in accordance with the Code and adequately disclosed in the financial statements. There are no other material judgements that need to be disclosed.

vi. Except as disclosed in the financial statements:

- a. there are no unrecorded liabilities, actual or contingent
- b. none of the assets of the Council has been assigned, pledged or mortgaged
- c. there are no material prior year charges or credits, nor exceptional or non-recurring items requiring separate disclosure.

vii. We confirm that we are satisfied that the actuarial assumptions underlying the valuation of pension scheme assets and liabilities for IAS19 Employee Benefits disclosures are consistent with our knowledge. We confirm that all settlements and curtailments have been identified and properly accounted for. We also confirm that all significant post-employment benefits have been identified and properly accounted for.

viii. Related party relationships and transactions have been appropriately accounted for and disclosed in accordance with the requirements of International Financial Reporting Standards and the Code.

ix. All events subsequent to the date of the financial statements and for which International Financial Reporting Standards and the Code require adjustment or disclosure have been adjusted or disclosed.

x. We have considered the adjusted misstatements, and misclassification and disclosures changes schedules included in your Audit Findings Report. The Council financial statements have been amended for these misstatements, misclassifications and disclosure changes and are free of material misstatements, including omissions.

The financial statements are free of material misstatements, including omissions.

xi. Actual or possible litigation and claims have been accounted for and disclosed in accordance with the requirements of International Financial Reporting Standards.

xii. We have no plans or intentions that may materially alter the carrying value or classification of assets and liabilities reflected in the financial statements.

xiii. We believe that the Council's financial statements should be prepared on a going concern basis on the grounds that current and future sources of funding or support will be more than adequate for the Council's needs. We believe that no further disclosures relating to the Council's ability to continue as a going concern need to be made in the financial statements.

# Management Letter of Representation

## Information Provided

xiv. We have provided you with:  
a. access to all information of which we are aware that is relevant to the preparation of the Council financial statements such as records, documentation and other matters;  
b. additional information that you have requested from us for the purpose of your audit; and  
c. unrestricted access to persons within the Council from whom you determined it necessary to obtain audit evidence.

xv. We have communicated to you all deficiencies in internal control of which management is aware.

xvi. All transactions have been recorded in the accounting records and are reflected in the financial statements.

xvii. We have disclosed to you the results of our assessment of the risk that the financial statements may be materially misstated as a result of fraud.

xviii. We have disclosed to you all information in relation to fraud or suspected fraud that we are aware of and that affects the Council and involves:

- a. management;
- b. employees who have significant roles in internal control; or
- c. others where the fraud could have a material effect on the financial statements.

xix. We have disclosed to you all information in relation to allegations of fraud, or suspected fraud, affecting the financial statements communicated by employees, former employees, analysts, regulators or others.

xx. We have disclosed to you all known instances of non-compliance or suspected non-compliance with laws and regulations whose effects should be considered when preparing financial statements.

xxi. We have disclosed to you the identity of the Council's related parties and all the related party relationships and transactions of which we are aware.

xxii. We have disclosed to you all known actual or possible litigation and claims whose effects should be considered when preparing the financial statements.

## Annual Governance Statement

xxiii. We are satisfied that the Annual Governance Statement (AGS) fairly reflects the Council's risk assurance and governance framework and we confirm that we are not aware of any significant risks that are not disclosed within the AGS.

## Narrative Report

xxiv. The disclosures within the Narrative Report fairly reflect our understanding of the Council's financial and operating performance over the period covered by the Council financial statements.

Approval

The approval of this letter of representation was minuted by the Council's Governance Committee at its meeting on 24 July 2019.

Yours faithfully

Name.....

Position.....

Date.....

Name.....

Position.....

Date.....

Signed on behalf of the Governing Body



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